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Party Building Faces Contradictions Under Market Economy

94CM0240A Nanjing NANJING DAXUE XUEBAO:
ZHEXUE SHEHUI KEXUE BAN [JOURNAL OF
NANJING UNIVERSITY: PHILOSOPHY AND
SOCIAL SCIENCES EDITION] in Chinese
No 6, 30 Nov 93 pp 80-82

[Article by Zhu Xiaoshi (2612 1420 4258) NANJING RIBAO newspaper office: "Cursory Analysis of the Special Contradictions Faced by Party Building Under the Conditions of Market Economy." Responsible editor: Sun Ye (1327 0396)]

[Text] The resolution of the 14th CPC National Congress to the effect that establishment of the socialist market economy shall be the target of the reform indicates that China has entered a new phase in its transition from the highly centralized system of planned economy to market economy, a system abounding in vigor and vitality. Energetic pursuit of the new forms and new tasks of developing the socialist market economy entails the need for our party to deal with circumstances and conditions that are different from those of the past. As a consequence, party building will have to face extremely complex and very special contradictions. The urgent and effective resolution of these new and particular contradictions is of important theoretical and actual significance for the strengthening of party building, for the enhancement of party guidance, for the socialist modernization with Chinese characteristics, and for the development of all undertakings of reform and opening to the outside world.

First Contradiction: The contradiction between the complex composition of the party membership and society, on the one hand, and the unanimous call for progress by the party membership, on the other hand.

The political party is the organization and political representation of the class; the composition of the party membership is directly and closely related to the particular economic structure of the society and to the class and strata of this society. As China is now developing a market economy and establishing this new system of market economy while it is still at the initial stage of socialism and possessing only backward and unevenly developed productive forces, the realities of China's situation demand, objectively, the development of a pluralistic economic structure, where the system of public ownership and distribution according to work are the primary constituents and where other economic sectors and distribution methods are supplementary. With the advances in China's reform and the extended existence and common development of pluralistic economic components, changes in China's economic structure will become more widespread and thoroughgoing. The complex changes of the economic structure will naturally result in changes in the component members of China's society and particularly in the composition of its strata, and it will furthermore, to a certain extent, have an effect on the economic composition of the party membership. For instance, in the actual present-day economic life, changes have already occurred in the economic relations of some party members, as some party members have distanced themselves from the original public ownership economy, are engaging in individual economy, private-run economy, or foreign-financed economies. There are others who are

engaged in individual and other kinds of economies who are now joining the ranks of party members. If we compare the complexity of the present social composition and economic relations of party members with the artificially changed production relations prior to the Third Plenary Session of the 11th CPC Central Committee, the much too early elimination of nonpublic ownership economic sectors and the social composition of party members with the corresponding conditions of the unitary economic structure of the public ownership system (ownership by the whole people, ownership by the collective) and the unitary class and strata structure (workers, peasants, intellectuals), the situation now certainly appears not as "pure" and "simple" as in the past. We have to affirm that the complexity of the social composition and economic relations of party members has adapted to the nature and condition of China's socialist force at the present stage. However, due to the special circumstances and specific influences of different economic relations, it was not possible to prevent that some party members—though with the precondition of uniformity of basic standards and demands for progress—engender certain divergences with regard to the extent of their political consciousness, awareness of the social stratification, value concepts, and methods of actions to be taken. The Chinese Communist Party is the vanguard of the Chinese working class; the demands of the party and those of each party member are essentially identical. The Party Constitution prescribes: Members of the CPC are vanguard fighters of the Chinese working class. They are imbued with communist consciousness, they must serve the people wholeheartedly, must be ready to make any personal sacrifices, and must dedicate their lives to the realization of communism. In view of the complex social composition of the party membership under the conditions of market economy, a problem that we are now faced with and that must under no circumstances be ignored, a problem in matters of party building, is how to bring onto one denominator the exemplary role and the particular demands of party members in the different economic sectors, and how to achieve conformity of their actual actions in their various individual economic activities, a conformity with the prescribed standards of party membership. A related problem is how to set up and run party organizations in different economic sectors and to develop the functions of their particular specialties so that they may also conform with the demands of the party organization. This too has to be carefully explored in actual practice.

Second Contradiction: The contradiction between the complexity of the party-masses relationship under the conditions of market economy, on the one hand, and the fundamental identity of party and masses interests, on the other hand.

The Chinese Communist Party is the faithful representative of the interests of the Chinese people of all nationalities. The lofty ideal of every member of the CPC is to serve the people wholeheartedly, without regard for special personal interests. Precisely because this is so, the party has always maintained flesh-and-blood ties with the masses during the protracted periods of revolution and construction, and has evolved the excellent tradition and working style of relying on the masses and closely linking up with the masses. As we are presently energetically promoting the socialist market

economy, we must push on with the liberation and development of the productive forces, impel all-round progress in society, and bring happiness and prosperity to the masses. On a foundation of this kind, the relationship between the party and the masses is bound to become even closer. However, the energetic development of market economy, especially in its initial stages, may manifest some complex relationships between party and the masses. This has easily led to many contradictions between the party and the masses, as well as between party cadres and the masses, contradictions that are characteristic for the market economy, and it is these contradictions that have generally manifested themselves particularly openly and visibly.

The party-masses relationship is after all one of interests, and its fundamental demand is that the party faithfully represent, and make every effort to realize, the interests of the broad masses of the people. Enduring, stable, and close party-masses relations are built on a certain objective material basis and on the foundation of common interests, and these comprise present vested interests as well as also the pursuit and expectations of future interests. Reform, opening to the outside world, and market economy have stirred up much enthusiasm and creativity among the broad masses, to increase economic production and to strive for prosperity. In the practical execution of the reform by the entire party and the entire society, material interests and economic interests have become the important problems that have now most of everyone's attention. Development of the socialist market economy is, of course, apt to bring immediate and long-term benefits for all, including party members, but it is not possible to provide these benefits simultaneously and equally for all, some will still temporarily remain without certain benefits. Especially during the initial stage of the developing market economy, when certain of its aspects have not yet matured and perfected, it is particularly difficult to avoid that certain contradictions will show up with regard to material benefits, and this can, in turn, become the cause of increasing dissatisfaction and louder voices of discontent among the masses. If it were the case that all of us party members, especially party members who are cadres in leading positions, would lack the mass viewpoint, would have inflated selfish desires, would misuse powers for private gain, show unhealthy tendencies, or even be party to all kinds of corrupt practices, this would with certainty aggravate the contradictions among the masses and add to the conflicts with the masses. Development of the market economy is bringing with it certain complex circumstances that affect the party-masses relation. They demand of us that we earnestly and effectively set about the task of party building in all its various aspects, and that we energetically explore how to utilize, under the new situation, the mechanism of the market to harmonize and resolve the contradictions in mentalities and in ways of doing things within the party-masses and cadre-masses relations. We must also, one step further, consolidate the flesh-and-blood ties between the party and the masses.

Third Contradiction: The contradiction between the complexity of inner-party contradictions under the conditions of market economy, on the one hand, and the unity of party ideology and party organization, on the other hand.

As the vanguard contingent of the working class, the party is—like everything else—an entity consisting of complex

contradictions. Inner-party contradictions reflect the objective realities of society, as these contradictions manifest themselves in different forms under different conditions. The inner-party contradictions under the new situation manifest themselves roughly in the following three respects:

First, contradictions of ideology and political consciousness. This refers mainly to various divergences in ideology and political consciousness engendered by the sharp collision and confrontation of new and old thoughts and concepts, and of the new and old modes of thinking, among party members during the period of China's social remodeling. This remodeling progresses from seclusion to opening up, from natural and semi-natural economy to commodity economy, and from the planned economy system to the system of socialist market economy. It is an inevitable trend of conflicts involving inner-party ideological and conceptual contradictions that they will adapt to the demands of the new ideology and new concepts of socialized large-scale production and market economy development. They will gradually take the place of the old ideology of small-scale production methods combined with the planned economy system. With intensified development of market economy, and the continuous manifestation of its superiority, there will gradually be no more market for those "Leftist" or rightist things. However, we must not overlook the fact that as a consequence of the intensified reform and the broadening of opening to the outside world, the value concepts of members of the CPC may become exposed to assaults from Western pluralistic value concepts, and may be invaded by various decadent feudal and bourgeois ideologies, which may make it difficult to maintain a high degree of ideological uniformity throughout the entire party.

Second, contradictions in the course of practice. The development of socialist market economy is placing a new task before the members of the CPC. It requires liberation of minds, seeking truth from facts, opening up new paths and creating new things, study of the new situation, resolving new problems, creating new experiences, and setting up a new system. The difficulties of accomplishing this new task in the course of actual practice can well be imagined. It will of course entail large contradictions and problems, and be the cause of many differing opinions and differing outlooks in the work to be performed. Under these conditions, it will certainly be difficult to keep the entire party altogether in step.

Third, contradictions of inner-party interests. The Party Constitution prescribes that party members must accept the interests of the party as the uppermost concern in life. The individual interests of every CPC member must unconditionally be subordinated to the interests of the party and the people. The party organization, on the other hand, must also be solicitous of and show consideration for the individual interests of the party members; this is a fundamental rule for the settlement of contradictions involving inner-party interests. Reform has set in motion an interest-promoting mechanism among the people, a mechanism working for liberation and development of productive forces, and the long-suppressed individual-profit consciousness has become liberated among all members of the society, including the members of the CPC. Now, the individual interests of party members are indeed also prominently put forward for due consideration, and are frequently, publicly, and "sensibly"

arrayed on par with the interests of the party and the people. In the past, some party members would have been ashamed to bring up openly demands for consideration of individual interests, but now they dare discuss and put forward such demands. They even dare to "haggle over prices," and in some cases even create certain "confrontational" situations in questions of inner-party interests. Contradictions between individual party members, on the one hand, and the party and the people, on the other hand, are fundamental factors that actually—under the conditions of market economy—adversely affect the cohesion within the party, and its attractiveness and fighting strength. If these contradictions are therefore not effectively resolved, it will be impossible for the party to maintain a high degree of unity in ideological, political, organizational, and operational respects. It will then also be impossible to shoulder the leadership responsibilities for reform and opening up and for the socialist modernizations. Under the new situation, the complexity of the inner-party contradictions not only increases the difficulties for party building, difficulties that have to be overcome within the body of the party itself, it also provides party building with an enhanced impetus for efforts to resolve the internal contradictions and for continuous self-perfection and self-development.

In this new historical era, the circumstances the party finds itself in and the tasks to be shouldered by the party have greatly changed. Due to these changes the party has to face many new complex situations and new problems in ideological, political, organizational, and in working style respects. The new reality demands of us that we must abide by the

fundamental political line of the party, that we must uphold the principle of having the party control its party members and strictly administer the party, and that we strengthen and improve party building. The task that is presently most important and pressing is in the sphere of ideological buildup. We must give utmost attention to the party's theoretical buildup, and, with the party's theoretical buildup as nucleus, we must strengthen the party's entire ideological buildup, making an effort to arm the entire party through the buildup of socialist theory with Chinese characteristics. As to the organizational buildup, our objective must be to enhance the party's centralized, unified leadership, to strengthen democratic centralism, to perfect the leadership system and the mechanism of the party's internal political life. As to the build-up of the party's working style, we must make close linkage of party and masses the fundamental concern, must correctly deal with the internal contradictions of the people, and resolutely control negative, decadent phenomena, reducing them to their lowest level. Through strengthening and improving party building and by directing our efforts to enhancing the governmental and leadership qualities of the party, we shall place the party, which will then have assumed a completely new attitude, at the front line of reform and modernization. It shall become a party with courage to reform to reform, a party imbued with vitality, a strictly disciplined, a just and honest party, that will select worthy and capable people to fill positions, and a party that will be eminently effective in its service to the people.

NATIONAL AFFAIRS, POLICY

Commission Researcher Forecasts 1994 Economy

94CE0368A Beijing GUANLI SHIJIE
(MANAGEMENT WORLD) in Chinese
No 1, 24 Jan 94 pp 50-53

[Article by Li Zhongfan (2621 1813 0416) of the State Commission for Restructuring the Economic System, and editor Wang Yun (3769 5366): "Analysis and Forecast of 1994 Development of the National Economy"]

[Text] In early 1992, after Comrade Deng Xiaoping spoke on his southern tour, China's economic development entered a new stage of rapid development, prominently expressed in the following five aspects: The first is the rapid growth of the national economy and a large increase in the wealth of society. The second is an obvious upturn in economic performance. The composite economic performance of enterprises, on the basis of the 6 percentage point improvement in 1992 over the previous year, also clearly improved in 1993. The third is the breakthrough achieved in price reform. With the economic life of society rather stable, the prices of 80 percent of means of production and 90 percent of means of subsistence have been freed up. The fourth is the initial improvement achieved in the industrial structure, concentrated in the rather rapid development of tertiary industry, especially the soaring development of railroads and highways. The fifth is the rapid expansion of the opening to the outside, in the broadening of the scope, as well as the use of foreign investment and the development of foreign trade, we have achieved great results universally acknowledged. Practice proves that Comrade Deng Xiaoping's speech was completely accurate. If we only conscientiously implement the spirit of his "speech," 1994 will be another year of rapid development for the national economy. We have conducted a rather scientific proof of this. Based on the economic model already established, we have calculated eighteen programs of the 1994 macroeconomic arrangement and after analyzing and summarizing them, we believe that despite the fact that there are several contradictions in the economic development, prospects are optimistic and it is totally possible to achieve rapid development.

I. Guiding Thought of the Macroeconomic Arrangement

Based on 1993 macroeconomic performance and proof of the feasibility of the 1994 macroeconomic arrangement, we believe that the guiding thought for the 1994 macroeconomic arrangement should be to continue to concentrate on improving economic performance, stress increased enterprise vitality and conversion of operating mechanisms, maintain the overall stable growth of newly added credit, and move the national economy toward more normal systemic circulation. At the same time, we should appropriately control the growth of overall investment in fixed assets of the whole society to ensure a basic balance in overall supply and overall demand in the whole society and correspondingly adjust the structure and continue to slant policy toward development of the transportation and energy industries and improvement in farmers' income.

II. Appropriately Control the Growth of Overall Investment in Fixed Assets of the Whole Society

In the last two years, investment in the fixed assets of the whole society has grown very rapidly. In 1992 the growth rate was 37.6 percent and the investment rate (the ratio of investment in fixed assets of the entire society to gross national product (GNP)) was 31.6 percent. In 1993 the growth rate is expected to be about 40 percent and the investment rate 37 percent, thereby causing the average annual growth rate for the five years between 1989 and 1993 to rise to about 20 percent and the average annual investment rate to reach about 30 percent. Without a doubt, the rapid growth in fixed asset investment has driven the rapid development of the national economy. In the two successive years 1992 and 1993, the growth rate of the GNP reached as high as 13 percent, causing the average growth rate for GNP for two successive years for 1989 to 1993 to reach 8.54 percent. Obviously, with the rapid growth of fixed asset investment in these two years, the investment rate has essentially been restored to normal and rapid economic growth has essentially been formed. On this basis, we believe that fixed asset investment growth should be appropriately controlled in 1994. It should not exceed 20 percent, taking 15-81 percent [as written] growth as appropriate. That is, controlling total investment in fixed assets of the whole society at about 1.25 trillion yuan to 1.3 trillion yuan, a nominal increase of 15-18 percent over the previous year. Discounting the price factor, the actual increase would be about 3-6 percent. And the investment rate would be about 34 percent, a drop of approximately three percentage points from the previous year. This way the essential balance of overall supply and overall demand could be maintained for the whole society and the sustained rapid development of the national economy could be maintained, causing the GNP to increase by about 11 percent over the previous year.

The important thing is that while controlling the growth of overall investment, we decide to adopt measures to improve investment performance. In sum, we must adopt three important measures: The first is to make state enterprises truly become principal investment bodies responsible for their own profits and losses. The second is that new starts be linked to completion of construction and going into operation, the investment rate be improved, and the growth of new starts be controlled. The third is that, in accordance with industrial policy, differential interest rates be implemented on bank loans for fixed asset investment projects.

III. Continue to Maintain Overall Stable Growth of Newly Added Credit

To maintain the rapid growth of the national economy, based on the decline in the economic performance of state enterprises, the obvious increase in "triangular debt," and the difficulty of economic operations in the last half of 1993, while appropriately controlling overall investment in fixed assets of the whole society, newly added credit must be increased to a rather great extent, so that the systemic circulation of the national economy can operate normally. When determining total newly added credit, we must consider three factors: the first is the growth of the national economy; the second is changes in the prices of means of production and means of subsistence; and the third is the operating needs of the socialist market economy. So, in determining total newly added credit, we cannot simply indiscriminately apply the formulas of the past. According to our calculations, total newly added credit in 1994 should

be between 560 billion yuan and 650 billion yuan, a growth rate of 22-25 percent, roughly equivalent to the average growth rate from 1984 through 1988. We should soberly consider that if the scale of newly added credit is too low, it will not be adequate to alleviate the current difficulties in economic operations and could quite possibly cause great damage.

It is important that while increasing overall credit, we must pay attention to improving credit performance. We must adopt four measures: The first is that in total newly added credit, we must increase the ratio of circulation funds loaned to make current enterprises operate smoothly. The second is that, in accordance with industrial policy, we implement differential interest rates and adjust the credit structure to unify the credit structure with the investment structure. The third is to fully utilize domestic and foreign funds by flexibly applying such means as interest rates, bonds, and stocks and raise a large amount of domestic and foreign funds. If we can reach 500 billion yuan (including savings), it would be a great victory. The fourth is by rapidly establishing a new financial order that meets the demands of the socialist market economy system and permitting short-term interbank loans and various ways of raising funds, to make funds fully efficient.

IV. Consolidate and Develop the Results of Price Reform and, Accurately Identifying the Opportune Time, Resolutely "Merge" Exchange Rates

In the last two years, price reforms have achieved a breakthrough, freeing up 90 percent of means of subsistence prices and 80 percent of means of production prices. The "dual track" price system has nearly been merged into a "single track system" based on market prices. This reform should be considered worth the cost, a 12-13 percent rise in the retail price index for all of society in 1993 and maintaining a corresponding level in 1994. On this basis, we advocate totally merging petroleum and coal prices in 1994 with an approximate affect of about 1 percentage point on the retail price index, and we forecast that the retail price index for the whole society in 1994 will be 11-12 percent. So, we can say that a rational price system meeting the needs of the socialist market economy is essentially formed.

Quite obviously, a rational price system demands a corresponding rational exchange rate system. So, we already have the basis for "merging" the exchange rate and should not miss the opportunity to adopt decisive measures and implement "merging" the exchange rates.

The current issue is whether merging the exchange rates could trigger large price increases. Our research indicates that 1994 price increases would not be triggered by excessive demand or material shortages. The main reason that they would rise still would be the combined manifestation of the chain reaction from the rationalization of comparative prices formed in accordance with market mechanisms after prices are freed up. The 1994 retail price index for the entire society (11-12 percent) is calculated based on the above

determination. So, the merging of the exchange rates should not have an obvious affect on the retail price index for the entire society.

V. A Rather Large Increase in Citizen Savings Driven by Adjustments in the Interest Rate

We once again emphasize that, based on China's national characteristics, credit is currently an important means of controlling economic operations and an important channel for banks to accumulate funds. The situation since reform indicates that the savings of urban and rural residents are a principal source for banks to accumulate funds. In the past five years, they have averaged approximately 70 percent of the year's newly added credit. Obviously, stable growth in the savings of urban and rural residents is an important factor in the stable growth of the economy. So, we must adopt effective measures to cause citizen savings in 1994 to return to the average levels (30 percent) of the last ten years. The most effective measure is promptly taking the initiative in adjusting interest rates in accordance with overall price levels to keep the interest rate on citizens' savings 2-3 percentage point above the retail price index for the entire society. That is, in 1994 interest rates on citizen savings should at least be adjusted up to about 13 percent, striving to have newly-added citizen savings reach about 450 billion yuan, making up 70-80 percent of newly added sources of credit funds. So, total newly added currency can be held within 200 billion yuan, an approximate increase of 34 percent over the previous year and roughly equivalent to the average increase from 1984 through 1988, extremely significant for the rapid stable growth of the national economy. If we analyze the average currency growth rate for the last six years (1989-1994), the growth rate is only 25 percent, still approximately eight percentage points lower than the 1984-1988 currency growth rate. Its affect on inflation is not clear.

VI. Continue To Slant Policy Toward Development of the Transportation and Energy Industries and Increasing Farmers' Income

In 1994, including 1995, a focus of the macroeconomic arrangement will be helping to accelerate the resolution of the "bottleneck" affecting the rapid, sustained, sound development of the economy in the 1990s. That is, we should implement policy slanted toward development of the transportation and energy industries and increasing farmers' income. In developing transportation, we should ensure that before the end of 1995, ensuring quality and quantity, we will complete the construction of the Beijing-Kowloon Railroad and achieve regular service and railroad transportation totals reaching 1.7 billion tons. The key to raising farmers' income is opening up farmers' avenues of employment. Not only must we put forth greater effort to develop rural enterprises, but we also must formulate preferential policies for converting the rural labor force to other industries. At the same time, we must further publicize science and technology on a greater scale and with higher goals and more strongly support and promote the effective "Spark Plan" and develop the rural information industry and effectively guide the farmers in developing production and striving for a rather obvious increase in farmers' net income, with the actual growth rate in the annual income reaching 5 percent or more.

VII. The Key Is To Improve the Economic Performance of Large- and Medium-sized State Enterprises

Enterprises economic performance is the basis for the performance of the entire national economy. Sustained, rapid development of China's economy must be based on constantly improving economic results accomplished by enhancing the vitality of enterprises, especially large- and medium-sized state enterprises and improving their economic performance. Since the Third Plenum of the 11th Party Central Committee, several effective and bold experiments have been made in this respect and remarkable results have been accomplished. In sum, we believe that the following few points are extremely important for enhancing enterprise vitality and improving their economic performance:

1. The aim of reform is to free up and develop productivity. Enterprises are the creators of social wealth and are productive forces. Therefore, the beginning and the end of all reform should be helping to enhance enterprise vitality and improve economic performance. Macroeconomic controls should conform to and serve this goal. We must conscientiously and resolutely implement the policy that "the central link in reform of the entire economic system focussed on the market is enhancing enterprise vitality, especially enhancing the vitality of large- and medium-sized enterprises under the ownership of the whole people." All thinking and measures that are divorced from this central point fail to grasp the main point and even run counter to intensification of reform.
2. In the 1990s, the guiding thought for intensification of enterprise reform still should be resolutely implementing the proposal made by Comrade Deng Xiaoping in May 1992 when he was inspecting Capital Steel, that "we can only take the approach of relaxing. Turning on the water raises fish well." We believe that this is an incisive summary of more than ten years of enterprise reform and indicates the direction for further intensifying enterprise reform.
3. Creating an environment of fair competition has become an important component of intensifying enterprise reform in the 1990s. First, according to the principles of the market economy, tax burdens should be generally equal for all enterprises, including "partially or wholly foreign owned" enterprises. Here we should point out that the tax burdens of state enterprises should gradually move closer to those of "partially or wholly foreign owned" enterprises, rather than "partially or wholly foreign owned" enterprises emulating state enterprises.
4. More than ten years of practicing enterprise reform has proven that no matter what form of management state enterprises practice, they must first determine the relationship between state and enterprise responsibilities, rights, and benefits. This demarcation of responsibility, rights, and benefits essentially is the demarcation of social property rights based on the public ownership system. Making it explicit that state asset legal person property rights are carried out by enterprises and the ownership of the assets ultimately falls to the state is the essential content of the contract management responsibility system as it has developed up to now. It is compatible with such forms of management as stock systems

and limited liability companies. On this basis, the management form of state enterprises can be diversified and gradually standardized.

VIII. Forecast of Principal Indicators of the 1994 National Economy

On the basis of the guiding thought and main points given above, after rather detailed proof, we have selected one out of the 18 plans for macroeconomic arrangement that we believe is rather feasible. The results of its principle forecasts are as follows:

- 1) Input Total fixed asset investment for the entire society: 1.25 trillion to 1.3 trillion yuan; total newly-added credit: 560 billion yuan to 650 billion yuan.
- 2) Output 1. Production GNP growth: 10-11 percent. National income growth: about 10 percent. Growth in total value of industrial output: about 19 percent; growth in total value of agricultural output: about 4 percent; growth in total grain production: about 1.7 percent.

Output 2. Market and prices growth in total social commodity retail sales: 20 percent; increases in social commodity retail prices indices: estimated at 11-12 percent.

Output 3. Banking and finance Urban and rural resident savings: growth 30 percent, new increases will be about 450 billion yuan (driven by adjustments in the interest rates and ensuring that it is 1-2 percentage points higher than price indices). New increases in currency circulation: growth 29-34 percent, increased amount 170 billion yuan to 200 billion yuan. Finances: revenue increase 12.6 percent; expenditure increase 11.2 percent. Financial deficit about 27 billion yuan, making up approximately 4.8 percent of treasury expenditures.

Output 4. Foreign trade and use of foreign investment total imports and exports will be about US\$224.6 billion, an increase of about 16 percent. Actual foreign investment used approximately US\$36.9 billion, an increase of approximately 34 percent. Foreign firm direct investment approximately US\$27.6 billion, an increase of about 46 percent.

Output 5. Urban and rural resident livelihood Total employee wages: increase about 18.6 percent. Growth of farmers' annual per capita net income: 9 percent; Growth of bank wage expenditures: 25.2 percent.

It can be seen that the above plan is directed at the problems existing in 1993 economic operations, giving prominence to credit increases to start normal operation of systemic circulation of the national economy and appropriately control the growth of the scale of investment to ensure a basic balance in overall supply and overall demand, to orient the national economy in the direction of sustained, stable, rapid development.

Forecast of Consumption Market for 1994

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[MANAGEMENT WORLD] in Chinese
No 1, 24 Jan 94 pp 79-82

[Article by You Caixiang (1429 1752 7449) and Li Qingyuan (2621 1987 0337), of the Ministry of Domestic Trade's Unified Planning Office; edited by Jiang Dongsheng (5592 2639 3932): "A Projection of China's Consumer Goods Market for 1994"]

[Text] I. The Impact of China's Macroeconomic Climate On Our 1994 Consumer Goods Market

The rapid growth of China's national economy and our improved macroeconomic climate in 1993 added to our overall national might and stamina, laying a solid foundation for economic development and market prosperity in 1994. We are here presenting a detailed analysis of the impact of our macroeconomic climate on our 1994 consumer goods market.

1. Our Demand Climate

1. Investor demand. Investor demand has always played a decisive role in China's economic development, with the years of larger investment bringing faster economic growth rates. While our rapid economic growth in the first half of 1993 was driven largely by investment-adjusted growth, too rapid investment growth with too much construction also causes many problems, particularly a decline in investment efficiency. In light of this, the state will base its actions in 1994 on maintaining an appropriate growth of investment scale, by tightening its regulation, control, and management of overall investment and credit. Meanwhile, it will speed up investment reform and strengthen investment restraint forces, so that investment subjects can make their own decisions, be liable for their own risks, and act less blindly. So in 1994, our investment demand will grow slower than in 1993, with funding sources invariably somewhat tighter than in 1993, arbitrary exceeding of investment plans down sharply, and overall investment growth clearly lower than in 1993. We project our 1994 investment growth at about 20 percent.
2. Consumer demand. Since the 1980s, China's consumer demand has increased yearly, with steadily upgraded consumer concepts and more stable, higher consumption quality. Our overall consumption level is now in a transition stage from "having enough food and clothing" to "being comparatively well-off." In which case, will consumer demand decline in this stage? And will our consumer goods markets "slump"?

First, we will briefly analyze the causes of our two most-recent economic "overheatings" and market "slumps." At the end of 1988, in order to control economic overheating and inflation, the state took "brake-slammings" steps, such as cutting back capital construction and tightening credit, as well as ones, such as raising savings interest rates and adding a new color-TV consumption tax, which lowered the average increase in incomes from 1988's 22.2 percent to 12.6 percent by 1989 for city dwellers, and from 1988's 17.8 percent to 10.4 percent by 1989 for rural residents. In addition, price increases gradually receded, increasing the

wait-and-see consumer mindset of holding onto money, which resulted in a national market slump.

Our wave of market panic-buying in 1988 and our exceptionally brisk market sales in the first half of 1993 were caused mainly by the above abnormal factors, resulting in consumer-mindset anxiety. There were two particular points: 1) as investment and currency put into circulation grew too quickly, causing waves of price increases, residents were clearly affected by inflation; 2) interest rates were lower than price rises, with declining exchange rates and negative growth in savings efficiency, so that the awareness of coming inflation strengthened in advance. This resulted in a large-scale phenomenon of purchasing and advance consumption as a hedge against inflation.

It is thus obvious that both our economic "overheatings" and market "slumps" were caused mainly by either too lax management or too tight regulation and control of our macroeconomic climate by the state, causing too much investment, price, interest rate, and exchange rate volatility. But once effective steps were taken to return these factors to normal, our consumer goods market stabilized quickly.

Second, consumer confidence is up. The "Resolution on Certain Issues Involved in Establishing a Socialist Market-Economy System" passed by the Third Plenary Session of the 14th CPC Congress set our basic direction of developing a socialist market economy, sharply raising the enthusiasm of the people throughout China to intensify reform and speed up development, and enhancing consumer confidence at all levels. An example of this was the bottoming out and pickup in rolled steel futures trading in Suzhou in late November 1993, showing that consumers had seen the coming good trend. Meanwhile, the center has taken a series of regulation and control steps to ease inflation and stabilize the RMB value and exchange rate, which will promote stable market-economy development, stabilize consumer confidence, and eliminate the phenomena of advance purchasing or holding onto money with a wait-and-see approach.

China's overall consumption is now in a transition stage from "having enough food and clothing" to "being comparatively well-off." In the world's developed countries, this stage was one of consumption expansion, in which markets could not "contract" sharply without special circumstances. So in 1994, China's market-economy establishment will be even more full of vitality, with consumption standards and quality developing to higher levels.

Third, purchasing power is growing quickly. Beginning in 1993, the state raised the wages of employees in administrative organs, for a projected annual increase of more than 28 billion yuan, which will correspondingly drive up wages for employees in enterprises and institutions. Meanwhile, 1994's tax-sharing system and internal enterprise reforms will help to arouse enterprise and individual initiative, correspondingly raising employee and individual income. This, in addition, the normal capital-increase factor, means that our employee incomes will grow more in 1994. In the fall of 1993, we had a better harvest, with farm and sideline industries growing very quickly, purchasing-fund payments better than in previous years, and peasant income rising steadily, which brought the beginnings of a rural market

pickup. In 1994, the state is going to sharply raise purchasing prices for farm products, such as grain and cotton, as well as improving fund-payments in one step, so that peasant income will continue to grow steadily. In addition, peasant income from business, such as township, construction, and tertiary industries, will rise sharply. It is projected that overall cash incomes will grow a record of more than 20 percent in 1994.

Fourth, we have a huge market-consumption potential. China's major consumer-goods market is our rural market, which accounted for 51.9 percent of our retail commodity sales in 1992. While this rural-market ratio has been declining in recent years, its consumer potential of 800 million peasants is enormous. For instance, our rural household power-usage rate is very low which, in addition to lower purchasing power, is due to the following two factors:

- 1) water and power are in short supply at high prices;
- 2) highway construction, communications and transportation, and after-sales service are lagging. But as peasant income rises and rural infrastructures are improved, peasant consumer demand, including that for large durable consumer goods, is bound to take a quantitative leap.

So our 1994 consumer-goods market demand will not "shrink," but rather will tend to grow.

2. Our Supply Climate

1. Industrial production. Through some decades of development, China has established a quite complete industrial system, with a strong manufactured-goods production capability. In recent years, our industrial production has continued to advance at a higher rate. Meanwhile, through several years of structural adjustment and market-oriented reform, enterprises are more able to change track and retool, with a faster rate of product renewal and exchange, and additional effective supply of manufactured goods. An analytical ranking of the supply and demand of over 530 manufactured goods in recent years shows that the varieties in short supply are declining yearly, with their ratio down from 1991's 6 percent to 4 percent by 1993, while commodities in long supply or where supply and demand are basically balanced are increasing steadily. Our markets essentially no longer suffer from commodity shortages due to production-capability problems, so that our market goods supply is fully ensured.
2. Agricultural production. As our output of farm products, such as grain, cotton, and edible oil, has been fluctuating for two consecutive years, their 1994 production and market condition remains not optimistic. This is due mainly to: 1) The price scissors between industrial goods and agricultural products have grown steadily in the last two years, dampening peasant cultivation initiative. In addition, all sorts of development zones and urban construction projects have been crowding out cultivated land, so that our area sown to farm products is in a declining trend. 2) Our 1994 yields of grain, cotton, edible oil, meat, and sugar are all down to varying degrees, which will have a sharp impact on 1994 market supplies. The center is paying great attention to this, having taken a series of steps to expand agricultural

production, and going to sharply raise purchasing prices for staple farm products, which will certainly increase peasant income. These steps will arouse peasant initiative to a certain extent, promoting agricultural production growth. In short, while 1994 will bring slighter tighter supplies of staple farm and sideline products, with higher prices, it will not see large-scale shortages.

3. Communications and transportation. In 1994, as no new railway arteries are being put into operation, our transport capacity will not be clearly higher, with communications and transportation remaining a sharp "bottleneck," and our transport shortage being about the same as 1993's at over 20 million tons, continuing to limit our national economic development.

In summary, analyzed from areas such as our 1994 macroeconomic climate, our market supply and demand state, and our consumer mindset, our 1995 [sic] consumer goods market will grow steadily, with no recurrence of sharp slides or market slumps.

II. The Impact of Economic Reform on Our 1994 Consumer Goods Market

In 1994, the state is going to conduct significant tax, banking, investment, and foreign trade reforms, which will be a major step in speeding up the establishment of our new socialist market economic system, and will be of key significance in making our national macroeconomic regulation and control system sounder, and in promoting sustained and steady national economic growth. These significant reform steps will also have a positive impact on our consumer goods market.

1. Tax-revenue system-reform. Our most important 1994 reform will be the implementation of a tax-sharing system, in which our current local revenue package [lump-sum] system will be changed to separate collection for each taxable item based on clarifying central and local tax categories and administrative jurisdiction, with the establishment of separate central and local tax systems, to change the current steady drop in central revenues and weakening macroeconomic regulation and control capability, in order to ensure a steady increase in central financial might.

This tax-sharing system will have positive impacts on markets.

- A. It will help to reduce fiscal deficits and ease inflationary pressures. In recent years, the "separate revenue systems" have caused a steady drop in central revenues, with the central ratio of all national revenue down from 1981's 57 percent to 38 percent by 1992. These yearly growing central fiscal deficits and annual revenue overdrafts from the central bank have sharpened inflationary pressures. State-planned priority construction projects are often not completed on schedule due to limited financial might and funding shortages. Statistics show that the fund-shortage rate for China's priority construction projects is now about 30 percent, leaving the construction of key domestic infrastructures lagging far behind our national economic development needs, with sharper "bottleneck" limitations, and blocked commodity circulation. So the tax-sharing reform will gradually increase central financial might, reducing deficits and easing inflationary pressures.

- B. It will help to weaken local protectionism, to speed up commodity-circulation development and the formation of a nationally uniform market. One of the defects of the separate revenue systems is that they reinforce local protectionism. Duplicate construction by all areas makes economic structures too similar, and rampant local protectionism obstructs commodity-circulation development. So tax sharing will strengthen central regulation and control capability, while weakening local protectionism, as well as strengthening local concepts about the overall situation, while ensuring the implementation of national industrial-development policy.
- C. The imposition of a uniform tax rate will contribute to equal competition among state, collective, and individual commerce. As to state-owned commerce, the new tax system will lower the overall tax rate for state-owned commercial enterprises from the current rate and somewhat reduce aftertax profit payments to the state, playing a positive role in lightening the burden on state commerce, adding accumulation, increasing sales, improving the state of unequal competition with private and collective commerce, and gradually reversing longstanding losses.
2. Financial-system reform. This reform's priorities will be to ensure that the central bank exercises an independent monetary policy, by strengthening its overall regulation and control of the money supply, in order to maintain currency stability; to separate policy banking from commercial banking, in order to overcome the current financial chaos caused by specialized banks being responsible for both functions; to develop plural-equity nonbank financial institutions, credit agencies, and all sorts of investment, insurance, and securities companies, in order to gradually set up an open and orderly money-market system. These financial reforms will contribute as follows. A) They will help to stabilize the value of the currency. Our overall money-supply damper will use the method prevalent in developed Western countries of independent central-bank regulation and control, which will help to change our past state of repeated credit expansion due to the policy factor, eliminate the system factors that induce inflation, stabilize our inflation rate at a lower level, and thus preserve stability of consumer mindset over a longer term. B) They will help the banking sector to clarify obligations, by separating policy from business. The policy bank will aim at breaking even or earning tiny profits, to exercise state policy operations, while commercial banks will be liable for their own profits, losses, and risks, to prevent unchecked credit activities. C) They will contribute to the establishment of a developed money market. Through valid forms such as financing and borrowing, enterprises will expand their funding sources, which will ease the longstanding fund shortages of circulation enterprises, to enhance enterprise operating flexibility.
3. Investment-system reform. This will be mainly the establishment of investment-restraint mechanisms for enterprise corporations, so that investment subjects make their own decisions and are liable for their own risks. This will help to change the past situation of disregard for qualifications, competition to start projects, and

unchecked expansion of the investment scale, to put enterprise investment scale and structure on a scientific and feasible basis, as well as ensuring that investment subjects and commercial banks are each liable for their respective risks, in order to ensure investment economic efficiency. As these investment-restraint forces are gradually established, there will be no recurrence of the real national investment scale exceeding plans to reach 350 billion yuan as in 1993, with elimination of the vicious system-cycle of investment impulse and expansion—leading to a sharp rise in investment-product prices—causing consumption expansion and price rises—resulting in retrenchment, to maintain stable market development.

4. Foreign trade system-reform. This will involve mainly putting the official exchange rate on track with the market-conversion rate, expanding enterprise foreign-trade operating authority, eliminating the method of foreign trade enterprises turning over foreign exchange to the state either with or without compensation, abolishing import licensing, reducing quota restrictions, and gradually lowering tariffs. These reform steps will contribute as follows: A) They will help to further speed up our opening to the outside world, expanding our foreign trade, and bringing into full play the supplementation and regulation role of international and domestic markets. B) They will help to promote the merging of international and domestic markets, improving the current isolation of domestic-trade enterprises from the international market, helping to resolve the current conflict of manufactured goods being in long supply with some products being slow-selling, and helping domestic-trade enterprises to understand international trends to reduce import costs, in order to make domestic markets more prosperous and brisk. Market-converted foreign exchange now accounts for 80 percent of our foreign-exchange usage. As this has become the key means of foreign-trade operation for domestic enterprises, the merging of foreign exchange onto a single track will not have a sharp impact on ordinary consumer goods prices. Rather, as tariffs will be lower, it will help to lower imported-commodity prices to promote consumption.

III. A Consumer Goods Market Projection for 1994

Based on this overall analysis of our 1994 macroeconomic climate and our economic-system development, China's consumer goods market will maintain a stable-growth trend, neither "slumping" nor "overheating."

1. Commodity sales will remain overall stable. We project 1994 retail commodity sales of 1.6 trillion yuan, up 20 percent from 1993 and, adjusted for inflation, up a real approximately 7 percent. This includes retail sales for consumer goods of 1.455 trillion yuan, up 21.5 percent, and for agricultural capital goods of 145 billion yuan, up 10 percent. Our rural markets will continue in a rebound trend, with some briskness in the midst of general stability.
2. Prices will rise considerably. The rapid rise in prices in 1993 will have a considerable lagging impact on 1994 prices. Meanwhile, there will be more upward price adjustments in 1994, with more force, in addition to spontaneous price-rise factors, so that we project that our 1994 retail commodity prices will rise less [sic] than in 1993.

3. By commodity category: a) Food commodities. Overall sales will be more stable. Staple farm products, such as grain, cotton, edible oil, meat, and sugar, will be in general short supply, with prices up considerably. Sales will be increasingly brisk for new foods that suit contemporary lifestyles, characterized by convenience, fast, nutritional, and health foods. b) Clothing commodities. All clothing sales will be brisk, mostly of medium grade, with sales of expensive clothing growing steadily, but markets for cheap clothing increasingly narrow. Sales will remain brisk for all sorts of Western clothing, T-shirts, jackets, wool, and woolen textiles, with better sales of new and distinctive styles. Outer-clothing sales will be comparatively stable. Sales of knitted cotton goods will gradually improve due to low prices, practicality, and higher demand by low- and middle-income consumers. c) Daily-use commodities. Sales will be stable but slack at lower prices for expensive large durable consumer goods, such as color TVs, refrigerators, and washing machines, due to a high urban-household use rate, more production than demand, lower import tariffs, and sharp market competition, while air conditioner sales will be stable but rising, with consumers choosing more brand-name household appliances. Sales will be brisk for smaller household-appliance market goods, such as humidifiers, electric heaters, water heaters, oil and smoke intake fans, microwave ovens, and home computers. Sales will continue to flourish for interior-decoration items due to commercial-housing development. Cosmetics and detergents will see quite brisk sales, with volume stable but rising.
4. Income levels will widen, with consumer pluralization tending to grow clearer. In recent years, income levels have been increasingly widening. Statistics show that there are now over 2 million high-income families throughout China with incomes of more than 100,000 yuan a year. This disparity is predicted to grow somewhat in the short-term. Urban consumers will continue to seek out brand-name, excellent, new, and specialty commodities, with a prominence of one-step consumer behavior, commodity consumption fields expanding, and no recurrence of the phenomenon of rivalry to buy a few commodities. Rural consumers will generally seek out mostly cheap and practical goods, with their consumption ratio continuing to rise for clothing and daily-use commodities, and consumption levels and structures for families in developed regions increasingly approaching those of urban residents.
5. Purchasing power diversification will continue to grow. Spending in 1994 will continue to grow for noncommodity items, such as housing, health care, insurance, education, tourism, and recreation; the steady growth of stock and bond markets will absorb a lot of money; banks' high-interest-rate policy will make savings continue to rise steadily. The pluralization trend in the consumer spending structure will grow more conspicuous.

Roundup Views Potential GATT Impact on Economy

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[Article by Wang Hongxing, affiliated with the Construction Bank of Hengyang City, Hunan Province: "A Roundup of Discussions of Return to GATT and the Chinese Economy"—edited by Xing Bochun]

[Text] I. The Impact of the Return to GATT on Enterprises of Our Country and Measures To Deal With It

A. Challenges Enterprises of Our Country Will Face

1. Under the principles of the elimination of quantitative restrictions and of trade liberalization, it will be necessary to limit the use of, or eliminate such things as quotas and import and export licenses; as a result our country's import system will undergo significant changes. Our country has committed herself to reduce the use of import licenses by two-thirds and to terminate the import regulation tax within the next three years; eliminating and reducing nontariff barriers are certain to weaken our country's trade protection measures. (Footnote 1: The Legal Rule Formulation Office of the Legal System Bureau of the State Council, "The Great Significance of the Return to the GATT to Our Country's Economic Life," JIAGE LILUN YU SHIJIAN Apr 93) All this will result in our country's enterprises facing a harsher external environment for business operations.
2. "The resumption of GATT membership" may make consumption structure mature too soon, a development which may hamper the upgrading of China's industrial structure. In the 1980s, the strong disruptive effects and demonstration effects produced by imported durable consumer goods constituted the factor which induced industrial structure to become more based on light industry. To improve the overall quality of the economy and increase overall national capabilities so as to create a solid foundation for achieving the strategic objectives for the middle part of the next century, China must immediately start efforts to upgrade her industrial structure, and must change her industrial structure from centering on heavy industry into centering on light industry. With regard to this issue, China is faced with the likely negative effects produced by "the resumption of GATT membership." "The resumption of GATT membership" will inevitably result in substantial increases in imports. After "the resumption of GATT membership," with the weakening of trade protection, China's consumer goods market, especially the market for large, durable consumer goods, will become a place of competition among the signatories. According to forecasts, once foreign durable consumer goods are imported in large quantities, urban consumption first of all will be stimulated. A contradiction will therefore emerge: On the one hand, the upgrading of industrial structure requires that mainly the capital- and technology-intensive industries, chiefly heavy and chemical industries, be developed, and those industries need a great deal of capital input;

on the other hand, the main sources of capital formation in China now are residents' savings and fund raising of various forms, but the upgrading of consumption will siphon off a substantial part of residents' savings. Thus the upgrading of industrial structure can be hampered by inadequate capital formation. (Footnote 2: Zhao Lingyun, "Four Major Challenges Posed by the Return to the GATT on the Chinese Economy," GUOJI JINGMAO TANSUO Jan 93)

3. The exporting of competitive products is very likely to cause antidumping problems. Under the GATT's general principles, the signatories may adopt tariff protection policies against imports. After "the resumption of GATT membership," our country can use this method to protect domestic infant industries; Western developed countries can also use this method to restrict exports from our country. This will be a major problem our country will face in regard to exports after "the resumption of GATT membership." It will be difficult to set appropriate prices for some of our country's products which sell well on the international market; as a result such products are prone to be subjected to antidumping tariffs imposed by developed countries in order to restrict imports from China. Such a development can adversely affect competitive exports from our country. (Footnote 3: An Furen, "The Impact of Joining the GATT on Our Country's Economy and the Challenges Our Country's Economy Will Face As a Result," CAIJING WENTI YANJIU (Dalian) Jan 93)
4. The expanding of the scope of protection of intellectual property rights will result in some domestic enterprises paying high licensing fees. As some developed countries are significantly superior in the areas of science and technology, techniques, name-brand trademarks, artistic and literary works, computer software, etc, expanding the scope of protection of intellectual property rights is doubtless in accord with the wishes of those countries. As enterprises of our country will have to incur a great deal of expenditures on many patent licenses and purchase patents from Western developed countries legally, there will be increases in their production costs and a decline in the competitiveness of their products on the international market. (Footnote 4: Yang Pengcheng, "The Impact of the Return to the GATT on the Business World of Our Country," QIYEJIA TIANDI Jan 93)
5. Under the condition of the granting of market access, the technology-intensive, capital-intensive, and knowledge-intensive products of our country will face the challenge posed by the fierce competition from manufactures imported from foreign countries. For a long time, under the protection of high import tariffs, our country has followed the import substitution strategy with regard to technology-intensive, capital-intensive, and knowledge-intensive products, neglecting the introduction of foreign things and giving excessive emphasis to having things produced domestically. Consequently, some technology-intensive, capital-intensive, and knowledge-intensive

products and industries of our country, such as passenger cars, electronic products, chemical products, and high-grade textiles and the industries producing those products, are not competitive on the international market. After "the resumption of GATT membership," disruptive impacts of imports on the domestic market will be unavoidable because of the reduction in administrative intervention and the opening of the domestic market. According to estimates, after "the resumption of GATT membership," there will be direct disruptive effects on industries whose output value accounts for approximately one-third of the total value of industrial output. If the degree of connectedness between industries is also taken into consideration, the prospective impact should be considered to be very extensive. (Footnote 5: Chen Jiaqin, "The Impact of the Resumption of GATT Membership' on Our Import and Export Trade and Measures To Deal With It," GUOJI MAOYI Sep 93)

B. Measures Our Country's Enterprises Should Adopt To Deal With the Impact

1. Several measures to improve the quality of our country's products so as to make them more competitive.
 - a) Do a good job of selecting pillar industries and leading products, bringing about the progress and improvement of all industrial products. In view of realities in the world and in our country, it is proper to consider making the microelectronic and information industries the pillar industries of our country, making energetic efforts to support them and develop them on a priority basis, linking them up with the information system, automation system, and machinery industry system, and making applications in the hundreds of thousands of enterprises of our country. Such developments will be certain to speed up the technological progress of our country's enterprises and improve enterprises' management standards, thereby fundamentally resolving the widespread problems of poor product quality, small product variety, high costs, and low output in enterprises.
 - b) Accelerate enterprise reform, completing the thorough transformation of enterprises' operating mechanisms as soon as possible. The basic condition for making enterprises transform their operating mechanisms is the transformation of enterprises into actors engaged in market competition. First, separate government from enterprises and have enterprises truly acquire the statuses as commodity producers and business operators and as market actors. Second, it is necessary to build and perfect the domestic market as soon as possible, making the domestic market a unified, open, and comprehensive market based on fair competition. Finally, make enterprises enter the market, thoroughly transforming their operating mechanisms. All this demands that accelerated supporting reforms of the systems regulating foreign trade, finance, materials, investment, prices, technological renovation, foreign exchange, etc., be carried out, so that after the transformation enterprises' new operating mechanisms can be used in practice and play their role.
 - c) Accelerate the development of new products, using high-quality new products in efforts

to occupy and expand market. First, it is necessary to form "scientific research-development-production complexes" in backbone enterprises or enterprise groups, directly turning achievements of scientific and technological research and applied technologies into new physical products, and carrying out mass production of those products. Second, with regard to the approach to new product development, it is necessary to mainly depend on one's own research, and to use technology introduction and technological cooperation as supplementary means, combining the two approaches. Lastly, carry out the technological transformation of enterprises on the basis of revolving around the development of new products and variety development. d) Make active efforts to adopt international standards so as to increase the international competitiveness of our country's products. The standards of products reflect the technological standards, labor quality, and management standards involved. Moving our national standards toward international standards as fast as possible and making enterprises directly adopt international standards have also become urgent tasks. e) Reform enterprises' wage system, making employees more inclined to care about product quality. On the one hand, educate employees on quality in a more vigorous manner, and raise employees' quality awareness; on the other hand, have wages linked to product quality. (Footnote 6: Liu Mingshun, "Several Measures to Improve the Quality and Competitiveness of Our Country's Products After Our Country's Resumption of Her Status As a GATT Signatory Member," BEIJING SHANG XUEYUAN XUEBAO Mar 93)

2. Change enterprises' organizational form, so as to make them capable of competing with foreign enterprises. a) Organize enterprise groups, so as to make it easier to give play to overall strengths, to create returns to scale, and to stimulate fund accumulation and vertical and horizontal financing; in addition, group economic activities are equipped with huge fund-gathering capability and multiple fund-gathering channels, a fact which is conducive to the concentration of production and funds. Enterprise groups are capable of organizing and conducting researches regarding the development of new products, and are therefore able to proceed with technological renovation and transformation. Enterprise groups are capable of taking risks and competing with foreign companies, and are therefore both more capable of attracting foreign capital and capable of developing abroad. Currently, our country's enterprise groups are small in scale. Local governments should emancipate their minds, and break down vertical and horizontal barriers; they should adopt policies tilted in favor of enterprises with potentials and good prospects and invigorate those enterprises on a priority basis, and should merge small and medium-sized enterprises with low efficiency and concentrate funds on using technology to tap their latent capability. b) Adopt the joint stock system. The joint stock system is tied to socialized large production. The joint stock system clarifies ownership rights over assets, so that enterprise employees' status as

masters will become explicit and concrete. For now, correctly leading residents to move toward stock and bond trading so as to turn consumption funds into production funds also constitutes an effective way to increase funds. (Footnote 7: Wang Chuanrong and Li Huimin, "A Preliminary Discussion of How Some Enterprises of Our Country Should Meet the Challenge Posed by Joining the GATT," SHANDONG CAIZHENG XUEYUAN XUEBAO Feb 93)

3. Effectively use a flexible tariff system or differential tariffs to protect national industry. At present, for developed countries, tariffs no longer constitute a powerful means of trade protection, but developing countries can still protect their domestic industry very effectively by using the flexible tariff system approved by the GATT. While lowering the overall tariff level, it is necessary to adopt flexible differential tariffs in view of the differences in the level of technological development of different industries and the differences in the competitiveness of different products of a given industry. It is necessary to carry out little or no reduction in tariffs applied to industries and products which are being developed domestically, such as products of the electronic, chemical, and medical supply industries. It is proper to substantially reduce the tariffs applied to industries and products with regard to which our country enjoys rather high technological standards and is very competitive, such as textiles, clothing, light industry products, and toys. (Footnote 8: She Jianzhi, "The Advantages and Disadvantages of Our Country's Return to the GATT and Measures to Deal With the Issue," JINGJI WENTI Feb 93)
4. Conscientiously study and consult various countries' successful experience regarding nontariff trade-protection measures, in an effort to develop our national industry. a) Government's necessary intervention in international economics and trade is indispensable; b) endeavoring to maintain a low restriction on market shares of imports; c) in order to prevent being controlled by foreign enterprises, some countries prohibit foreign enterprises from carrying out any direct investment in some sectors; d) enforcing strict technological standards and safety and health laws and regulations; e) support provided by the fiscal and financial policies of the government; f) the policy of having things produced domestically; and g) organizing customs unions and free trade areas, thereby exercising trade protection based on having blocs of states serving as the actors.
5. Seek better conditions for entering the international market and for acquiring advanced technologies by making use of the GATT. At the present moment, to different extent all the major developed industrial countries are imposing conditions or restrictions on giving our country the most-favored-nation treatment, imposing discriminatory quantitative restrictions on our country, applying unjustifiable antidumping measures against our country in an inappropriate manner, and controlling technological exports to our country. After "the resumption of

GATT membership," our country can try to gradually eliminate those discriminatory trade conducts and barriers under the relevant provisions of the GATT. (Footnote 9: Yang Taishan, "The Impact of the Return to the GATT on Our Country's Enterprises," QIYEJIA (Wuhan) No 23, 92)

6. Organize production and marketing in accordance with international rules and practices. In the process of taking part in the international division of labor in a comprehensive manner, our country's enterprises should observe international practices. For example, they should pay attention to compensated use, special-purpose use, and regional and scope restrictions in regard to the introducing, utilizing, and purchasing of patents, trademarks, copyrights, etc. Enterprises should clear up matters of intellectual property rights involving foreign works, technologies, trademarks, and patents which they are now copying, reproducing, or use without compensation. As another example, those enterprises which have long been competing on the basis of low prices should analyze their products' share of a given market and their price ratios to comparable foreign products; if the share is too large, it would be necessary to try to reduce the concentration, for otherwise such a situation can cause damage law suits and antidumping investigations. (Footnote 10: Zhou Saigun, "The Impact of the Resumption of GATT Membership on Our Country's Industry," JINGJI WENTI TANSUO Mar 93)

II. The Impact of the Return to the GATT on Domestic Prices in Our Country and Measures to Deal With It

A. Impact on Domestic Prices in Our Country

Some comrades believe that "the resumption of GATT membership" will have a large impact on the general price level on the domestic market. From a short-term perspective, prices will decline on the domestic market. With the accelerated reform of our country's foreign trade system, tariffs are gradually becoming the main means of regulating imports and exports. With the further opening of the domestic market, high-quality, low-price products from the international market are more likely to enter the market of our country, thereby bringing about decreases in prices of comparable domestically produced products. On the other hand, as required by the GATT, our country's tariff level had to be appropriately lowered, and as a result selling prices for some imports on the domestic market will decline. All this will help alleviate supply and demand contradictions, and will thus suppress inflation, thereby contributing to effectively maintaining relative stability of the general price level on the market. From a long-term perspective, it will be more difficult to maintain the basic stability of the general price level on the market. a) Under the traditional system, our country has been a low-price country. After the resumption of GATT membership, the domestic price level will move toward the price level on the international market, leading to price increases. b) With the economy becoming more externally oriented, the supply and demand relationships on the international market and the resultant price fluctuations will both directly affect the supply and demand balance and prices for materials in our country. c) With the reform of the foreign exchange system, downward exchange-rate adjustments' role of encouraging exports and

inhibiting imports will be strengthened; increases in purchasing prices for goods for export will bring about some increases in prices for comparable goods sold domestically. Therefore it is necessary to establish a new set of effective mechanisms for suppressing inflation. (Footnote 11: Sun Quan and Zhang Xianbin, "The Impact of the Resumption of GATT Membership' on Domestic Prices and Measures to Deal With It," JIAGE LILUN YU SHIJIAN Apr 93)

Some other comrades believe that after "the resumption of GATT membership" the domestic general price level's basic tendency to increase amid general stability will be determined by the following several situations. a) Price increases caused by the expansion of the scope of market regulation of prices will be hampered by such factors as the opening of the domestic market and the intensification of market competition. According to estimates, after the scope of market regulation of prices is expanded, prices for energy and raw materials will rise to some extent, and prices for factors of production will also rise, but because of competition the manufacturing sector will be forced to absorb such price increases; thus prices for manufactures and consumer goods can remain basically stable, and the domestic general price level will not be markedly affected by the two factors. b) Import tariff concessions and the downward adjustments of renminbi (RMB) exchange rates are also two mutually constraining factors. c) The price-raising effects of protection of intellectual property rights will also be cancelled out by the acceleration of technological progress. Consequently, after "the resumption of GATT membership," the domestic general price level will neither fall substantially nor rise substantially. It will show a tendency to rise amid general stability. (Footnote 12: Zhang Qian, "A Preliminary Analysis of the Impact of the Resumption of GATT Membership' on the Domestic General Price Level," GUOJI MAOYI WENTI Jun 93)

According to another view, in the process of development as well as reform and opening up, an economically backward country will see large increases in its price level, or even hyperinflation. As far as international factors are concerned, the spread of international inflation into a country represents a necessary law. It can spread through many means such as foreign trade, foreign capital, foreign debts, and exchange rate devaluation; it can also spread from the coastal regions to the hinterland. As yuan may not be taken abroad, international inflation can spread to the country, but domestic inflation cannot spread abroad. All this shows that in the process of opening up, our country's price level will inevitably rise until it is the same as the price level on the international market. By increasing the openness of our country, "the resumption of GATT membership" is certain to accelerate the rising of domestic prices. (Footnote 13: Yang Fan, "The Impact of the Return to the GATT on Prices in Our Country," GUOJI MAOYI WENTI Feb 93)

Some comrades have also analyzed the defects of the traditional price system. As they have pointed out, except for a few commodities, the international and domestic price systems have been basically disconnected for a long time; "the resumption of GATT membership" will surely have disruptive effects on the domestic price system. First, in terms of the price level, the lowering of tariffs and the reform of the domestic tax and fee system will result in the price level falling somewhat; but reforms regarding the

dual-track yuan exchange rate system and the foreign-exchange distribution system will lead to increases in the domestic price level, and especially the further downward adjustment of yuan exchange rates will result in increases in prices for goods for export; enterprises will spend more on debt serving, resulting in increases in costs, and the purchasing prices for goods for export will also rise accordingly; increases in fees for foreigner-related services will also bring about increases in some related fees. Second, there will be further adjustments of price structure. Prices for some goods which are too high or too low domestically will gradually move toward prices on the international market. With the development of international service trade and because of the demand of the development of tertiary industry in our country, service fees will be substantially increased. (Footnote 14: Ma Song, "The Impact of the Resumption of GATT Membership on Prices in China and Thoughts on Measures to Deal With It," JIAGE LILUN YU SHIJIAN Jun 93)

B. Price Reform Measures Which Should Be Adopted To Deal With the Impact

1. In accordance with the demands of the socialist market economy, accelerate the transformation of the price-forming mechanism and establish a pricing mechanism based mainly on market regulation of prices. In the future, on the one hand, it is necessary to supplement and perfect the pricing measures regarding the production materials, light industry products, and agricultural products for which prices have been decontrolled, truly giving enterprises the right to set prices; on the other hand, gradually decontrol, in batches and by stages, prices of products which are suitable for being decontrolled and of which conditions for decontrolling are basically ready, such as prices for grain and some production materials as well as fees for some social and business services. (Footnote 15: Gao Tiesheng and Zhang Xuehong, "The GATT and Price Reform in Our Country," JINGJI LILUN YU JINGJI GUANLI May 93)
2. Accelerate and deepen price reform. a) Accelerate the price reform related to prices for imports and exports. b) Accelerate the price reform related to factors of production, so as to stimulate the flow and factors of production and the growth of the factor market. Especially, it is necessary to accelerate the reform of prices for input of factors of production relating to imports and exports. c) Accelerate the reform of tertiary industry prices. d) Introduce market-economy countries' effective pricing methods and principles which are conducive to market competition, and reform the pricing methods and principles which do not meet the demands of international competition and a market economy. e) On the basis of referring to practices in market-economy countries, establish and perfect our country's socialist-market-economy system of the state's macro-level price administration, regulation, and control. f. Enhance the investigating and research involved in the price decisions made by enterprises, especially large- and medium-sized enterprises, strengthen enterprises' internal price management, give emphasis to the gathering of price information, train price workers, etc. (Footnote 16: Ma Song, "The Impact of the Resumption of GATT Membership' on Prices in China and Thoughts on Measures to Deal With It," JIAGE LILUN YU SHIJIAN Jun 93)
3. Transform the function of price work, and improve price management, so as to meet new demands. a) Broaden the horizon, and emancipate the mind; establish the concept of large market and the concept of the international market; and enhance the analysis of dynamics of the international market, and study the links between the domestic and international markets and the impacts of the domestic and international markets on each other, making such analysis and study one of the preconditions for handling price work. b) Perfect price laws, regulations, and methods, reduce direct administrative intervention, and use laws and policies to regulate enterprises' pricing behavior and to guide the functioning of the market, so as to make sure that the situation is in accord with internationally followed principles. c) Guide efforts to establish industrywide price consultation organizations, which will coordinate the respective industries' prices for imports and exports. (Footnote 17: Sun Quan and Zhang Xianbin, "The Impact of the Resumption of GATT Membership' on Domestic Prices and Measures to Deal With It," JIAGE LILUN YU SHIJIAN Apr 93)
4. Complete the price reform mainly consisting of price deregulation as soon as possible. As a comparison of the price structure of our country's products with that of the international market would show, prices for industrial products and capital-intensive products of our country are too high, whereas prices for primary products and labor-intensive products of our country are obviously too low. In terms of our country's tariff structure, our country's nominal tariff rates for industrial products and capital-intensive products are high, whereas our country's nominal tariff rates for primary products and labor-intensive products are low. After the return to the GATT, it will mainly be tariffs on industrial products in the high tariff category and with values higher than on the international market that will be reduced; on the markets for such important industrial products as automobiles, machinery, and electric appliances, domestically produced products will be easily replaced by foreign goods. However, prices for primary products such as crude oil and coal are lower than international prices; thus, after "the resumption of GATT membership," those products will flow to the international market in large quantities, thereby aggravating the situation of short supply on the domestic resource market. Therefore, to take the initiative in meeting the challenge posed by "the resumption of GATT membership" to domestic industries, it is necessary to carry out the price reform mainly consisting of price deregulation, so as to increase as much as possible the time difference between the decontrolling of prices and the lowering of tariffs. In this way it will be possible both to give full play to prices' role in allocating resources and guiding production and consumption, and to

mitigate the disruptive effects produced by the substantial weakening, caused by the reduction in nominal tariffs, of the protective effects of actual tariffs on industrial products. At the same time, alleviate the pressures created by tariff concessions on our country's industry by appropriately lowering RMB exchange rates some time later. (Footnote 18: Cai Sifu, "The Challenge Posed by Tariff Reductions to Our Country's Industries," ZHONGNAN CAIJING DAXUE XUEBAO Feb 93)

III. Challenges Posed by the Return to the GATT to Our Country's Foreign Trade System and Measures To Deal With Them

A. Challenges Posed by the Return to the GATT to Our Country's Foreign Trade System

1. Increases in imports will result in enterprises facing a more complicated external environment. After "the resumption of GATT membership," with the granting of large tariff concessions and the weakening of nontariff barriers, the degree of openness of the domestic market will suddenly increase; this will inevitably result in increases in imports, thereby producing huge disruptive effects on the external business environment for various domestic enterprises, especially state-owned enterprises. Such changes in environment will center on three issues: a) because of imbalances between imports and exports caused by increases in imports, maintaining a balance-of-international-payments equilibrium will become a very prominent issue; b) changes in conditions for importing goods and in the composition of imports will further prompt and stimulate the adjustment of consumption structure, thereby affecting the structure of the economy as a whole and the equilibrium of aggregate demand and supply, and thus adopting effective measures to prevent a new round of inflation of consumption demand will also become a practical issue; and c) under the condition in which market access is granted, foreign goods will squeeze into and occupy markets in our country, thereby posing severe challenges to the development of domestic industries, especially the machinery and electric product industries. All this will undoubtedly create new destabilizing factors in the macroeconomic environment. (Footnote 19: Wang Shiyuan, "The Return to the GATT and the Reform of the Economic System of Our Country," JINGJIXUE DONGTAI, Mar 93)
2. The return to the GATT will produce disruptive effects on our country's foreign-trade management system. After "the resumption of GATT membership," the import management system will certainly be greatly simplified, and tariffs and nontariff barriers will certainly be reduced. The foreign-trade management system based on state commands and highly monopolized state control will be transformed into a foreign-trade management system based on enterprises' decentralized, independent import and export operations. The decentralization of foreign trade operations may result in efforts to export domestically produced products by competing in lowering their prices, a behavior detrimental to the trade

interests of the nation. (Footnote 20: Li Changcai, "Opportunities and Challenges Presented by the Return to the GATT," JINGJI DONGTAI Feb 93)

3. The impact of "the resumption of GATT membership" on the import and export system. Currently signatories to the GATT believe that our country's trade barriers are excessive, a situation far from meeting GATT requirements. Therefore, it is necessary to further relax foreign exchange control, lower tariffs, reduce the scope of the use of import licenses, improve import administration and policy transparency, reduce the scope of plan-based management of foreign trade, grant greater autonomy on foreign trade operations to foreigner-involved enterprises, and reduce or eliminate means of subsidy such as export-related tax refunds. Foreign trade enterprises will also encounter competition from exporting enterprises at home. Thus, the existing foreign trade system has to be reformed accordingly.
 4. The impact of "the resumption of GATT membership" on foreign trade revenues and expenditures and on the value of the currency. As some goods from our country are not competitive internationally, they cannot be exported in large quantities to earn foreign exchange, whereas foreign goods will pour into the market of our country unimpeded; as a result there will occur balance-of-payments deficits, forcing our country's yuan to devalue and yuan exchange rates to decline. Such a development will also produce a situation unfavorable to securing foreign loans, resulting in increases in borrowing costs. (Footnote 21: Yang Wenyan, "The Impact of the Resumption of GATT Membership on Our Country's Economy and Measures to Deal With It," JINGJI WENTI May 93)
 5. It will be difficult to complete the fundamental reform of the foreign trade system within a short period of time. From a long-term perspective, the benefits "the resumption of GATT membership" will give our country will be fundamental in nature. In the near term, there will be a time lag in many areas of work in our country. The sudden transition from the old to the new system will cause some confusion in economic life, and the impact of the reform of the foreign trade system on other parts of the economic system can be described as a situation in which a slight move in one part may affect the situation as a whole; it is absolutely impossible to complete the reform in a short time. (Footnote 22: Li Shousheng, "A Preliminary Analysis of the Resumption of GATT Membership' and the Issue of Access to the Chinese and U.S. Markets," GUOJI MAOYI WENTI Sep 93)
- #### B. Measures on Foreign Trade and Economic Relations Our Country Should Adopt To Deal With the Challenges
1. Further reform and perfect our country's existing foreign trade system. a. With regard to the export system: First, it is necessary to reduce plan-controlled goods as much as possible; with regard to large-volume investment goods with impacts on state plans and people's lives as well as goods with bearings on the national strategic interests, it is necessary to

determine the specific facts and conduct measurement on specific things in an effort to achieve rationalization. Second, there should be transparency with respect to the procedures, modes, and methods governing the application for export licenses; give every enterprise qualified for application the right to be informed of all the aspects of the system and the procedures involved; simplify the elaborate procedures, reduce costs, endeavour to make things scientific and standardized, and reduce management loopholes as much as possible. At the same time, carry out competitive auctions, so as to increase returns on exports, thereby safeguarding the overall returns for the country. Third, further perfect foreign-trade enterprises' mechanism of shouldering independent responsibilities for profits and losses. Fourth, actively form all kinds of partnerships and joint ventures across the sectors and carry out all kinds of shareholding, mergers, and buy-out across the sectors, grant more production enterprises or enterprise groups the right to engage in import and export foreign-trade operations, and further diversify and decentralize foreign trade actors, so as to make it possible to take part in international competition in an effective way.

b. With regard to the import system, the reform principles should be: establish a functioning mechanism which is mainly based on tariff regulation and based on having nontariff regulation serving as a supplement, which is characterized by a rational tariff level and an appropriate tariff structure, which contains the competition element to an appropriate extent, and which protects infant industries; on the basis of referring to the experience of some developing countries (areas) on structural reform and in view of the demands of the development of our national economy and the adjustment of our country's industrial structure, formulate annual mandatory and guidance plans on the entire country's imports, with the main objective being to facilitate the optimization of industrial structure; and, while protecting national industry, it is necessary to select newly emerging industries which are playing an important role in the development of the national economy and enjoy advantages in terms of development. (Footnote 23: Nie Wenlong, "Statements Made Before Our Country's Return to the GATT," DAN-GDAI CAIJING Jun 93)

2. Transform the function of government, further enhance the transparency of our country's foreign trade policy, and regulate foreign trade in accordance with the law. Under the condition of a socialist market economy, enterprises are legal entities carrying out business operations; government's function is mainly to carry out planning, coordination, supervision, and services, so as to create a good external environment for equal competition among enterprises, but government should not interfere in enterprises' business activities. At the same time, it is also necessary to emphasize that giving play to the market's role as the basic mechanism of allocating resources is not tantamount to relinquishing the

state's macroeconomic regulation and control. (Footnote 24: Chen Jiaqin, "The Impact of the Resumption of GATT Membership' on Our Import and Export Trade and Measures to Deal With It," GUOJI MAOYI Sep 93)

3. Establish and perfect enterprises' mechanism of operating in accordance with international practices. First, deepen enterprise reform and transform enterprises' operating mechanisms. In considering issues, it is necessary to link up the functioning of the domestic economy with international economic circulations and to link up the domestic market with the international market; and it is necessary to focus on resolving the issue of carrying out business operations in accordance with the laws of movement of the international market and international practices. Proceeding from realities, establish joint-stock economic conglomerates in which foreign trade enterprises will serve as leaders and which are based on trade-industry, trade-agriculture, and trade-technology integration, or joint-stock economic conglomerates in which large backbone production enterprises will serve as leaders and which will be based on industry-trade, industry-agriculture, and industry-technology integration; take the initiative in actively participating in marketing activities on the international market; make enterprises turn into carrying out production and business operations in accordance with the standard system, market demand, price levels, marketing practices in the area of international trade; include such internationalized-operation targets as those on the amount of foreign exchange produced by exports, costs for earning foreign exchange, the rate of foreign exchange retrieval, and the amount of foreign exchange remitted in the system of targets used in enterprise accounting, so as to ensure the sustained, steady, and high-efficiency development of foreign trade. Second, actively develop market internationally, and promote the diversification of foreign trade. The main problem in our country's foreign trade is that the relevant market abroad is small, with around 90 percent of the exports being confined to such regions as North America, Hong Kong, Macao, and Europe. Such a situation is very far from meeting the demands of the development of the situation at home and abroad. In accordance with the principles of combining economic relations with trade, of unified planning, of exploiting strengths, and of rational distribution, closely combine export trade with such activities as the utilization of foreign capital, labor service cooperation, building projects on the basis of contracts, and overseas investment; create new breakthroughs in regard to purchasing and marketing channels, fund raising, market development, and approaches to business operations; gradually form a functioning mechanism of economic and trade activities which is based on a situation in which the economy stimulates trade, in which trade brings along the economy, and in which domestic and international elements are joined, forming a combined a force; enhance the performance of many functions such as sales promotion, fund raising, introduction of

foreign things, exploratory efforts, coordination, service, and information; and promote the diversification of foreign trade. (Footnote 25: Lu Xinde, "A Brief Discussion of the Linking Up of Our Country's Domestic Market With the International Market," SHANDONG CAIZHENG XUEYUAN XUEBAO Feb 93)

4. Establish and perfect laws and regulations on imports, and replace the existing administrative regulations of various kinds with laws, so as to enhance the transparency of our country's foreign trade policy. Therefore, it is necessary to formulate and enact our country's Foreign Trade Law, Antidumping Law, and Antisubsidy Law as well as market protection measures as soon as possible. As the day of our country's final resumption of her GATT signatory status is drawing near, our country is faced with the prospect of foreign products pouring into the domestic market. As soon as preexisting administrative measures are terminated, they must be replaced with relevant laws to provide protection so as to help customs offices protect national industry; otherwise there will be inestimable harms to the implementation of the state's industrial policy and the development of the national economy. (Footnote 26: Li Weicheng and He Jing, "The Reform of Our Country's Import System and the Development Trends of Imports in the 1990s," GUOJI MAOYI Dec 92)

PROVINCIAL

Price Rises in 1994 Forecast

94CE0370B Beijing ZHONGHUA DISAN CHANYE
BAO in Chinese 14 Feb 94 p 2

[Article by Zhang De (1728 1795): "How Much Will Prices Rise This Year"]

[Text] An authoritative national agency predicts that the main features in the price situation in 1994 will be about the same as during the past two years, namely high economic growth and price reforms will continue to be the main causes of price rises.

The source predicts that the 1994 price index will remain generally the same or be slightly lower than in 1993. An approximately 13 percent rise is predicted. This means that it will not be less than two digits, and will not very likely exceed 15 percent. If the economic growth rate is nine percent, this will not have too strong an impact on economic life. So long as no great ups and downs occur in the operation of the economy, the degree of increase in prices will be tolerable.

Persons concerned feel that there are more favorable factors in the price situation in 1994 than in 1993. The situation may be looked at from the following several angles:

First, the intensity of price reform has diminished. The degree and range of decontrol of prices for both means of livelihood and means of production is already substantial in

China's pricing system. Although some price reform measures may continue to be inaugurated during 1994, the effect will be less than in 1993.

Second the degree of opening of China's markets to the outside world will continue to expand in 1994. This is particularly true of means of production markets. To a certain extent, this will help international market resources keep in check the overly high degree of rise in means of production prices, thereby stabilizing China's markets.

Third, the situation in means of livelihood markets suggests continuation of a pattern of supply being greater than demand. This will help hold down price rises attributable to panic buying, and it will also help restrain cost-driven currency inflation.

Conversely, unfavorable factors may also appear in the following several regards:

First, a fairly large amount of currency was issued in 1993, and forecasts call for no marked weakening of this trend during 1994. This may exert a certain amount of demand pull on market prices.

Second, prices of transportation, energy, and raw and processed materials have risen greatly during the past two years, spurring a rise in costs, thereby increasing market pressures in 1994.

Third, the merging of the two different exchange rates in 1994 may give rise to price rise factors to a certain extent.

Fourth, main agricultural products are in relatively short supply today. Prices of staple and non-staple foods may exhibit a rising trend in 1994.

Overall, the overall price level in 1994 will be limited by overall social supply and demand and the market environment. If the double digit economic growth rate of 1993 is to be maintained, the government will have no choice but to increase credit. Reportedly, a finance and banking conference decided that all banks in the nation must rigorously control total credit in 1994 at below 4.5 trillion yuan. This total may not be exceeded.

The state has made control of currency inflation and maintenance of sustained, steady, rapid, and healthy economic development its economic development plan for 1994. It was on this basis that a few days ago the State Council stated the present need to intensify macroeconomic regulation and control, increase control over prices, and not permit prices to rise at will. Otherwise, not only will the standard of the living of both city and countryside residents be hurt, but this could trigger overall instability.

Given the not insignificant current "inflation rate," there is ample reason for having confidence that the nation's existing macroeconomic regulation and control measures will be effective. This is because the forecasts of an authoritative source suggests that the income of Chinese residents used to pay living expenses will still be higher than the degree of rise caused by currency inflation.

However, it is hoped that this result can be realized.

FINANCE, BANKING

New Tax System Now Under 'Normal Operation'

94CE0389B Beijing JINGJI RIBAO in Chinese
1 Mar 94 p 2

[Article by Ding Jianming (0002 1017 6900): "The First Two Months of the New Tax System"]

[Text] Beginning on 1 January 1994, China has fully reformed our industrial-commercial [business] tax system, with the new substance being mostly the flow and income tax systems. As the new tax system has now been in effect for nearly two months, all areas are reporting that it has successfully entered a state of normal operation, having made a basically smooth transition.

Since the NPC Standing Committee approved the new individual income tax law on 30 October 1993, the State Council has published interim regulations on the six taxes of value added, consumption [excise], business, enterprise income, land value added, and resource. By now, except for the detailed implementation rules and regulations for the land value added tax, the application regulations and detailed application rules and regulations on the other of the six tax categories have been published and put into effect. Most recently, the State Council has issued another circular, deciding to abolish the rural market transaction, livestock transaction, cooking oil special, bonus, and wage reconciliation taxes, and to devolve authority to lower administrative levels for the animal-slaughtering and banquet taxes, showing that the major substance of China's overall tax-reform plans, particularly the reform measures on key tax categories, is in full effect. Revenue reform is the focus of China's current overall related reforms, with tax reform being the "priority focus" of revenue reform. This smooth implementation of the new tax system is providing solid grounds for the accelerated establishment of China's socialist market economy.

As this tax reform is comprehensive, overall, and structural reform, involving an adjustment of the interests of every enterprise and individual, it is harder, more full of conflict, and subject to great risk if not done well. The Party Central Committee and State Council have paid great attention to this tax reform, with the State Council leadership personally guiding the work and repeatedly providing key instructions. To ensure the smooth implementation of this tax reform, tax department cadres and employees at all levels have done much work. Beginning in October 1993, tax organs at all levels have conducted training work in many forms for the large numbers of tax cadres and enterprise factory directors, managers, accountants, taxhandlers, and even sales and purchasing agents, ensuring that the majority of tax cadres and enterprises recognized the importance of this tax reform, so that they could basically grasp its key substance and operating essentials.

In addition to the great attention paid to this tax reform by the Party Central Committee and State Council, it has also received much attention and support from the leadership in all areas and sectors. Many key leaders of provinces, cities, autonomous regions, and sectors gave speeches publicizing the new tax system and asking their subordinates to cooperate in its implementation. At the "National Tax Publicity Day" activities organized by the State Administration of

Taxation [SAT] for 23 January, hundreds of thousands of tax cadres and enterprise accountants took to the streets under the guidance of the local Party and Government leadership, publicizing the tax laws and seeking public advice. Meanwhile, in order to implement well the new tax system and promptly resolve all issues, the SAT intensified its command and control. During the nearly two months since the beginning of the year, the SAT sent out over 60 documents and faxes of all types, as well as holding two national telephone conferences for tax bureau directors above the county level, conveying the pertinent spirit and demands directly to grass-roots tax bureaus, thus ensuring national accessibility to government decrees.

Tax-reform success will be shown by several very important signs: whether it touches off price volatility and sharp rises; whether it brings stable growth or decline to revenues; whether it causes much disorder through the counterfeiting of value-added-tax special invoices and the exploitation of filled-in invoices to evade taxes; whether its impact on production is positive or negative.

—As to its implementation in the last two months, the most concerning price problem is not sharp price volatility or rises due to tax reform. While the consumption tax was misunderstood by some for a time as an additional tax added onto prevailing commodity prices, thus causing brisk sales of commodities, such as home electronics, publicity and explanation brought this disturbance to a very quick end. And after the value-added tax went into effect, while some misunderstood the 17-percent non-price tax as an additional 17 percent on top of the original tax-inclusive price, repeated explanations and additional joint checkups with concerned sectors by tax organs essentially cleared up and rectified this matter.

—Revenues remain in a high-growth trend. By 20 February, national business-tax revenues had reached 40.7 billion yuan, up 27.3 percent from the same period in 1993.

—The implementation of the new tax system has not generally had a negative impact on production and circulation, with industrial production remaining in a state of rapid growth. Data from the State Statistical Bureau for January show our national industrial output value at the township level and above at 290.3 billion yuan, up 33.2 percent from the same period in 1993. While the widespread implementation of the value-added tax caused certain problems for a time for small-scale taxpayers and production operations, the tax sector took very quick and effective steps to improve this situation, solving the problems.

—The value-added-tax special invoices were all distributed before 1 January, with no major problems in any links, such as printing, delivery, sales, or use. Moreover, we made improvements in light of realities in areas such as invoice-column design, invoice size, and anti-counterfeit markings and, according to enterprise request, added a seven-link style to the four-link style invoices. The SAT has also decided beginning on 1 May 1994 to use on a nationwide basis anti-counterfeit invoices printed uniformly by printing plants, to prevent counterfeit invoices.

It could be said that all public circles and most enterprises have responded well to the implementation of the new tax system. Foreign firms with investments in China do not have added tax burdens due to the new tax system, which has cleared up their misgivings about it.

But it also needs noted that the new tax system has been in operation for less than two months, and that certain frictions will also unavoidably exist in the course of dovetailing the new and old tax systems. So SAT Deputy Director Jin Xin [6855 9515] [former SAT director] told reporters the other day that the current results are merely initial, not yet enough to state that the implementation of the new tax system has been a complete success. As many new problems and conditions have not yet fully surfaced, we need to keep cool heads to promptly study and deal with all problems as they arise.

It should be emphasized that China's current tax reform is aimed at establishing a tax system suited to the needs of our socialist market economy, or one that conforms to both international practice and China's national conditions. Our reform guiding ideology is uniform taxation, fair tax burdens, a streamlined tax system, a rational division of powers, orderly distribution relations, and a standardized distribution form. While our reform plan was designed to adhere to the basic principle of maintaining the overall tax burden unchanged, the former tax-burden inequality means that the widespread implementation of the value-added tax will make it impossible for every taxpayer's vested interests to not be affected. This means that all will have to take the overall situation into account, by proceeding from overall and long-range interests to support the implementation of the new tax system, instead of driving prices up because the tax burdens of certain enterprises are somewhat heavier. It needs to be seen that as tax reform is the grounds for our establishment of a socialist market economy, so that the implementation of the tax reform and the achievement of its anticipated results will sharply speed up the pace of our establishment of a socialist market economy, a long-range view is of advantage to all.

New Tax System 'Favorable' to Foreign Investors
94CE0391B Beijing ZHONGGUO SHUIWU BAO
in Chinese 7 Mar 94 p 1

[Article by Dong Shukui: "The New Tax System Will Attract Even More Foreign Business Investors"]

[Text] Since the start of reform and opening up, our country has all along used two tax systems governing domestically funded enterprises and foreign-funded and foreign enterprises respectively, levying separate taxes on them. In regard to turnover tax, the uniform industry and commerce tax was levied on foreign-funded and foreign enterprises in accordance with the Provisions for the Uniform Industry and Commerce Tax of the People's Republic of China (Draft) which was adopted in principle by the 101st meeting of the Standing Committee of the National People's Congress [NPC] in 1958 and which was promulgated and put into effect on a trial basis by the State Council. On the other hand the product tax, value added tax, and business tax were levied on domestically funded enterprises in accordance with the relevant draft tax regulations promulgated and put into effect on a trial basis by the State Council in 1984 with the NPC Standing Committee's authorization.

In 1993 our country comprehensively reformed the industry and commerce tax system, promulgating provisional regulations on the new value added tax, consumption tax, and business tax. At the same time, the fifth meeting of the Eighth NPC Standing Committee decided: "Beginning on 1

January 1994, the provisional regulations on the value added tax, provisional regulations on the consumption tax, and provisional regulations on the business tax promulgated by the State Council will be applicable to foreign-funded enterprises and foreign enterprises," and "the Provisions for the Uniform Industry and Commerce Tax of the People's Republic of China (Draft) will be abolished at the same time." In this way turnover taxes levied on domestically funded enterprises and foreign-funded and foreign enterprises have been unified. This reform is sure to play a positive role in enhancing economic exchanges between our country and other countries, in expanding the opening to the outside world, in utilizing foreign capital to a greater extent, and in promoting the development of foreign-funded enterprises. The new tax system has created a favorable taxation environment for foreign business investment in China.

1. **Levying a uniform value added tax, consumption tax, and business tax has evened out tax burdens on domestically funded enterprises and on foreign-funded enterprises.** The uniform industry and commerce tax rates for 94 of the 141 industries and product categories subjected to the previous uniform industry and commerce tax were higher than the rates of the product, value added, and business taxes levied on domestically funded enterprises; in some cases the differences were substantial. For instance, in the case of beer, the uniform industry and commerce tax rate was 40 percent, whereas the product tax rate was only 25 percent; in the case of cotton yarn, the uniform industry and commerce tax rate was 23-26 percent, whereas the previous value added tax rate was 14 percent, with an effective tax burden of around 5 percent; in the case of electronic watches and quartz clocks, the uniform industry and commerce tax rate was 20 percent, whereas the previous value added tax rate and the part-of-price tax rate were 14 percent, with an effective tax burden of around 5 percent. In addition, some industries granted tax-break preferences to domestically funded enterprises; for instance, domestically funded flour mills and feed-processing plants were completely exempted from taxes, whereas foreign-funded flour mills and feed-processing plants had to pay a 10-yuan or 5 percent uniform industry and commerce tax. After the reform of the tax system, the value added tax, business tax, and consumption tax are levied on domestically funded enterprises and foreign-funded and foreign enterprises in a uniform manner, thereby eliminating unfairness in tax burdens.
2. **Tax burdens created by most of the products produced by foreign-funded enterprises have been reduced or remain unchanged.** According to a survey of 1,253 enterprises in Beijing, Tianjin, Shanghai, Guangzhou, Xiamen, Wuhan, Qingdao, and Dalian, tax burdens on 70 percent of the enterprises have declined somewhat or remain unchanged after the tax reform. The products which create reduced tax burdens mainly include: beer, refrigerators, air conditioners, vacuum cleaners, videocassette recorders, electronic clocks and watches, wrist watches, electric fans, cigarettes, alcohol, etc.
3. **The value added tax has eliminated the previous uniform industry and commerce tax's problem of duplicate taxation.** A common feature of the previous industry and

commerce tax and the new value added tax is the levying of tax on every phase of production and business operation. That is, if a commodity has to go through the production, processing, and marketing carried out by five independent enterprises before finally entering consumption, taxes will be collected five times. However, the previous uniform industry and commerce tax was levied on the total sales revenues; the more phases of production, processing, and circulation a commodity has to go through, the heavier the tax burden will be. The value added tax is levied only on the value added at each phase; the amount of tax burden created by a commodity is directly related to how much value has been added, but is not significantly related to the number of phases of production, processing, and circulation. This is conducive to the specialization, coordination, and socialization of production.

4. **Conducive to foreign-funded enterprises' production of products for export.** In order to encourage the entry of their own countries' products into the international market and to enhance the competitiveness of their own countries' products on the international market, most countries follow a no tax policy toward products for export. Since the start of the opening to the outside world, our country has all along followed a policy of exempting exports produced by foreign-funded enterprises from the uniform industry and commerce tax. As the uniform industry and commerce tax was levied on the total amount at each phase, it was not clear how much tax on raw materials used for producing exports was collected; consequently exports had to be exempted from the final round of taxation. The provisional regulations on the value added tax promulgated in December last year stipulate that the tax rate for exports be zero. It is also stipulated that "in exporting goods for which the applicable tax rate is zero, taxpayers may apply for the refund of tax paid on the exports at taxation agencies on a monthly basis by showing the relevant certificatory documents such as customs declaration forms, after going through customs formalities for exports." That is: there can be a refund of the value added tax collected at all the phases, from that of raw materials to that of finished products, which exports have to go through. The implementation of this policy will doubtless enhance the competitive position of products produced by foreign-funded enterprises on the international market, and is therefore conducive to foreign-funded enterprises' production of products for export.
5. **Foreign businesses' vested interests related to their investments in China will be protected.** The idea behind the design of this round of reform of the tax system is that reform should neither increase burdens on enterprises nor reduce the state's fiscal revenues, keeping the overall tax burden at the preexisting level. Nevertheless, because of changes in the structure of the tax system, simplification of tax rates, and reform of the arrangement regarding the phases on which taxes are levied, a small number of foreign-funded enterprises will still see increases in their tax burdens despite the fact that tax burdens on most foreign-funded enterprises will be reduced or remain unchanged. In order to ensure that foreign-funded enterprises will not suffer economic-interest losses because of the reform, the Eighth NPC

Standing Committee has decided to adopt appropriate measures to resolve the problem of likely increases in tax burdens on foreign-funded enterprises. That is: if their tax burdens are increased because of the change into levying the value added tax, consumption tax, and business tax, those foreign-funded enterprises which were approved and established before 31 December 1993 may receive the refund of the additional amount of tax paid because of the increase in their tax burdens for the approved period of operation, after their relevant applications are approved by taxation agencies; they may receive such tax refunds for a maximum period of five years. A value added tax in kind and, under the existing regulations, the mining-area use fees will be levied on the crude oil and natural gas recovered by offshore oil-exploiting enterprises, but the resource tax will not be levied on them for the time being. The value added tax rate will be 5 percent.

6. **The foreigner-involved tax preference policies formulated by the state since the start of reform and opening up will, in principle, all remain unchanged.** The Income Tax on Foreign-Funded Enterprises and Foreign Enterprises Law of the People's Republic of China adopted by the NPC in 1991 will still be applied to foreign-funded enterprises and foreign enterprises. A reduced income tax rate of 15 percent will be applied to enterprises in the special economic zones and foreign-funded production enterprises in economic and technological development zones; a reduced income tax rate of 24 percent will be applied to foreign-funded production enterprises in coastal open economic regions and open cities; foreign-funded production enterprises will be exempted from the income tax for two years, and will enjoy an income tax rate which is reduced by half for three years, beginning in the year in which they start to make profits. All the preferential policies on the enterprise income tax will continue to be followed.

With regard to turnover tax, the preferential tax policies regarding the uniform industry and commerce tax which were formulated by the state previously, such as those of exempting machinery, equipment, and parts imported by foreign-funded enterprises within the confines of the total volumes of investment from the import-phase turnover tax, of exempting the raw materials imported for the purpose of producing exports from the import-phase turnover tax, and of granting tax preferences to the bonded zones, will all be continued.

All this shows that the new tax system has not increased tax burdens on foreign investors but rather created a fair, relaxed, and favorable taxation environment for foreign investors, and that thus it is sure to induce even more foreign businesses to invest in our country.

Active Gold Markets Need Guidance

94CE0389A Beijing ZHONGGUO MAOYI BAO
in Chinese 5 Feb 94 pp 1, 3

[Article by Gao Ling (7559 1545): "Gold, Lifting the Veil of Mystery"]

[Text] Taking a casual stroll along city streets, what one sees everywhere rising like bamboo shoots after a spring rain, in addition to sumptuous hotels and restaurants, seems to be

numbers of resplendent gold and silver shops. Incomplete statistics for a large northern city show it currently having over 300 gold shops, with 100-plus more awaiting approval, presenting a phenomenon of more stores selling gold than rice. Moreover, most gold shops are located in "golden areas" on busy streets.

Gold, symbolizing wealth, luck, and well-being, is dazzling, fascinating, and intoxicating. We working people have a traditional and extreme fondness for it. Whenever we acquire a little money, we want to buy gold.

Gold is actually a very common metal with quite widespread uses, being edible, spendable, and life-saving. It has long been seen as a special commodity that can be either worn as jewelry or invested as a hedge against inflation. During turbulent times of war and chaos, gold not only is a commodity that can be invested as a hedge against inflation, but even becomes at times a life-saving "amulet." And when this precious metal that sells for 120-150 yuan a gram was manufactured into exquisite and tiny pieces to appear on the banquet menu in our southern cities that were opened up first (according to "scientific research," eating gold helps to prolong life), its characteristic charm in China made it a great consumer marvel of the late 20th century.

In short, gold in China has a huge consumption volume which, according to statistics, was 250 tons in 1992, up 47 percent from 1991. While this volume was estimated to be down somewhat for 1993, at about 220 tons, there are still generally very optimistic prospects. The most recent information is that gold jewelry consumption for the first three quarters of 1993 was 920 million yuan, with all of the growth focused in gold jewelry. Other data show China's gold demand at 350 tons, ranking first in the world.

But we must note that the sharp increase in gold shops and brisk sales of gold jewelry certainly do not mean that China has a sound and developed gold market. The facts are exactly the opposite, that China still does not have a gold market in the strict sense, and that it can only be rated as:

A Lopsided Market

A gold market in the narrow sense means a trading arena with concentrated gold transactions and gold-coin exchanges. In a modern market-economy system, it is a key component part of the money market. Since the 1970s, the West has also seen the appearance of a gold futures market, with gold markets having become the key area in which Western countries apply economic means of macroeconomic regulation and control to economic operations, turning them to a certain extent along with stock markets into Western economic "barometers."

But in China, gold production, operations, and management have long been subject to our traditional planned-economy means, characterized by a high degree of planning, monopoly, and exclusion. Just like a beautiful lady, gold has been raised in seclusion and covered with a thick veil, leaving it with enigmatic mystery. As to output, the state issues orders of the highest secrecy that absolutely must be kept from the outside world. As to products, the PBC monopolizes buying and selling on behalf of the state, with no one allowed to encroach. And as to management, gold production, refining, and flow are managed by the three sectors of metallurgy, light industry, and banking, with the

structural separation making coordination difficult. As our domestic gold market is divorced from the international one, our gold purchasing price is far lower than the international market price, while our gold jewelry sales prices are higher than international market prices, damaging the interests of both producers and consumers.

And as our gold prices are so off-track, this creates severe gold smuggling, with the state already concerned about runaway gold purchasing. In 1990, smuggled goods actually made up as high as 80 percent of our national sales of gold jewelry. He Naihua [0149 0035 5478], president of the China Jewelry Import-Export Corp, told the reporter that our 1992 domestic gold jewelry sales were about 300 tons, of which less than 40 tons went through the official supply and marketing channel of state-designated banking institutions. The implications of this are obvious. By 1993, the sharp devaluation of the RMB touched off a storm of gold panic-buying in all areas, with gold prices rising again and again, and gold smuggling growing more rampant, causing the state huge losses. The "gold-mining fever in western China" described in some works confirms the gold smuggling.

So some people of insight are raising a cry of warning that gold must no longer be dissociated from markets, that our gold industry must be commercialized, and that the establishment and opening of China's gold market is so imperative that it brooks no delay! The sooner our gold market is opened up, the sooner the state will profit, without which financial reform will be incomplete, and we will be unable to shoulder the heavy responsibility of "GATT reentry." Some even ask, as the most precious commodity of grain has been deregulated, how long must gold wait?

By now, our gold industry leadership, the public, and economists involved with gold have essentially reached a consensus on establishing and opening China's own gold market and that, as to terms, such as society, technical services, resources, and laws, the time has come and the conditions are ripe for an open gold market. So our gold market could be said to be:

Already "In Labor," About To Be Born

An official at the State Administration of Gold Control has disclosed that while gold production in China has always been a special line, where opening to the outside world started later than in others, the policy of bringing China's gold market onto track with the international market is set.

In fact, the state has already taken definite steps to put China's gold market on track with the international one.

First, in September 1993, the state abolished its former style of fixed gold prices by administrative decision, changing to a new gold pricing system of floating pricing through market decision, or setting the domestic purchasing price 10 percent below the London market gold price, with selling prices the same as London gold prices, and domestic gold prices floating regularly.

The state has also eliminated its preferential policies for the gold industry, such as policy subsidies, low-interest loans, and tax exemptions, as well as requiring gold-mining units to pay for the use of geological prospecting data.

Our consolidation of RMB exchange and enterprise tax rates has also created a key condition for the opening to the outside world of our gold production.

Foreign firms have always coveted China's huge gold consumer market. Starting in 1994, China will selectively introduce foreign capital and technology to our goldmining. It is understood that dozens of companies in countries such as the United States, Canada, and South Africa, have made contacts with China's responsible gold sector, expressing interest in investing in Chinese goldmining.

The most secretive proposal is the news of the publication of our gold output, being a further signal about the opening of our gold market. But while this will lift the veil of mystery shrouding our gold industry, it will still be a case of "just as the frown leaves, other worries come to mind." The experts have new concerns, advising that:

We Must Not Turn Our Gold Market Into a "Petty Commodity Market"

Gold in China is about to be withdrawn from the monetary field, to be "reduced to" a market commodity. The experts are concerned that due to the inevitable drive of profits, just as in the previous opening of certain other industries, the opening of our gold market might induce all areas to act out of their own local, narrow interests, with precipitate action, each going their own way, and the setting up of petty markets "with each king occupying his own territory," to disrupt our overall national market order.

The experts' concerns are certainly not overdone. In fact, private mining and smuggling have long since brought "stealth gold markets" to certain places. The most notorious of these was in the town of Ganwangzhen in Haicheng City, Liaoning Province, where peasant-mined and privately-bought gold was made into jewelry and sold, turning the "stealth market" into an open "secret." So the local government planned to establish a gold market there to "standardize private gold transactions, to bring them under government control." On 1 September 1992, the first private gold jewelry shop in Ganwangzhen opened to the sound of firecrackers. In a very short five months thereafter, 106 goldshops applied for business licenses, with 76 going into business, of which 73 were private and the other three collective. The PBC head office reacted to this very quickly, issuing a circular to the Liaoning branch off the PBC on 28 December 1992, declaring Ganwangzhen's actions to be illegal, and emphasizing that until state plans involving the opening of the gold market went into effect, no locality or unit could operate gold markets without authorization. After which, Ganwangzhen's gold shops not only did not decrease in number, but even increased somewhat. This also touched off a controversy within financial circles.

But in any case, gold is still not an ordinary commodity. As gold is also an international hard currency, with links to the foreign exchange market, China's gold-market model must be able to play a positive role in protecting our domestic economy, while also being subject to state macroeconomic regulation and control. As our gold-market transaction method is mainly futures contracts, certainly not barter of cash for goods, our establishment of gold markets must by all means not allow them to spring up all over, for one after another of "petty commodity markets."

The experts recommend that, based on current conditions, we should select one or two large cities in which to set up nationally standardized gold markets, with Shanghai undoubtedly being the first choice. Shanghai is China's largest gold-jewelry sales center, as well as striving to become an international financial-center city. As it is understood that Shanghai is establishing a trading center for gold and silver jewelry, gradually making the transition to a standardized gold market, it seems that there would not be too great doubts about choosing Shanghai for China's first established gold market. As to the other cities suited to the establishment of a gold market, the experts hold that an ideal site would be Guangzhou. It is understood that Guangzhou also has such plans, now studying the possibility of setting up a gold market. Other news is that in the plans for a financial street on Beijing's West Second Loop Road, a gold market has been included as one of its projects.

Other experts recommend the organization of a gold-transaction organ to train talent in and publicize knowledge about gold futures trading. We could set up independent gold exchanges in cities, such as Beijing, Shanghai, and Shenzhen. Gold exchanges should use a membership system, with members coming upon examination from banks, concerned entities, and individuals.

Pre-Birth Pangs

While China's pertinent sector decided in September 1993 to reform our gold pricing system to put it on track with international gold prices, other news is that the gold-management sector has recently reemphasized the monopoly-control system for gold to rectify and improve gold markets in all places, stipulating that all gold produced by goldmines must be sold to the PBC.

Concerned figures point out that this step is the result mainly of the lag in the establishment and development of a state gold market. As there is not a state gold market, the state cannot regulate and control gold markets, leaving gold trading in disorder, and creating a large gold drain and rampant improper trading behavior. In addition, as the relations among all parties have not yet been rationalized, an immediate transition to free trading would involve many unsuitable parts. All such issues are keeping the policy-making sector's policy orientation slanted toward retention of the monopoly-control system.

I hold that both the reemphasis on the monopoly-control system and the controversy over Ganwangzhen's gold markets are actually merely gold market "pre-birth pangs," and that gold will eventually have to be given access to standardized market trading. Insiders predict that by 1995, China's gold-monopoly management system will have been broken with somewhat.

Time will not wait, and the opportunity will not come again! From the 1990s into the early 21st century, the world economy will enter another period of sustained growth, setting off a fifth worldwide modernization tide. So whether we can establish a large international gold market will depend on the choices we make now.

INDUSTRY

Statistics on Output of Textiles in March

HK1404104094 Beijing CEI Database
in English 14 Apr 94

[Text] Beijing (CEIS)—Following is a list of the output of textiles in March 1994, released by the State Statistical Bureau:

Item	Unit	3/94	3/93
Yarn	10,000t	44.99	42.31
Yarn	10,000pc	250.37	235
Cloth	100m.m	14.97	15.21
Of: Pure cotton	100m.m	8.19	8.89
Chemical fiber	100m.m	4.95	4.73
Silk	10,000t	0.77	0.70
Silk fabric	100m.m	2.24	2.29
Woolen fabric	10,000m	2418.44	2026
Knitting wool	10,000t	2.86	2.63
Garment	100m.pc	3.08	2.68

March Gross Industrial Output Value Figures

HK1204130794 Beijing CEI Database
in English 12 Apr 94

[Text] Beijing (CEIS)—Following is a list showing China's total industrial output value in March 1994, released by the State Statistical Bureau:

(In 100 million yuan)		
	3/94	3/93
Total	3409.04	2869.4
Including:		
Light ind.	1617.43	1348.8
Heavy ind.	1791.61	1520.6
State firms	1572.78	1584.2
Collectively owned ones	1327.65	1006.6
Others	508.61	278.6

Note: The industrial output value is measured in 1990s constant yuan.

Analysis of 1994 Integrated Circuit Market

94CE0360A Beijing JINGJI RIBAO
in Chinese 28 Feb, 7 Mar 94

[Article in two installments: "Analysis of 1994 Chinese Integrated Circuit Market"]

[28 Feb 94 p 7]

[Text] According to information provided by the relevant department in the Ministry of Electronics Industry, China's integrated circuit market will have the following characteristics in 1994: Integrated circuits in home appliances will become rather popular; the share of such investment products as communications that utilize integrated circuits will greatly increase; design of application specific integrated

circuits by China itself could reach something of a breakthrough; and in the large market and high technology set up, the competition of the integrated circuit area will open up in every direction, science, industry, and trade.

It is estimated that this year, 569 million integrated circuits will be sold on the consumer market and 445 million investment type integrated circuits will be sold, for a total of 1.014 billion.

The use of integrated circuits in home appliances has become more popular, opening up a vast area for the integrated circuit market. According to analysis, with television producing factories further improving the grades of products and increasing various functions, the use of integrated circuits in televisions can only increase. In 1994 it is estimated that 10 million color television sets and 11 million black-and-white sets will be sold, and the demand for television integrated circuits is expected to be 110 million to 120 million.

In 1993, audio equipment factories quickly adjusted and upgraded their products as a result of improved technology and changing consumer demand. The products are pocket-sized and portable digital recorders with CDs and displays and remote-control stereos. So, they use such circuits as noise reduction circuits, Dolby circuits, and amplification circuits. By the same token, radios also require multiple bands and multiple functions. So, they need circuits such as time control circuits. This trend will not change in 1994. It is estimated that 138 million audio circuits will be required in 1994.

Electronic departments that make video tape-recorders emphasize major administrative projects. Domestic production of complete sets of CKD forms will formally commence and sound cameras have been initially designated for test production domestically at six sites: Beijing JVC, Guangzhou JVC, Shanghai Sony, and Fuji Company, as well as Xiabin and Shangguang. In 1994 batch products also could be promoted. Total estimated use will be 161 million.

Camera circuits. Annual domestic production of cameras is 1.5 million, requiring such things as electronic focus and electronic shutters. As the world's third largest electronic clock and watch maker, circuits used in clocks and watches along with those processed in Hong Kong together come to approximately 35 million.

The product types and the market for electronic games and electronic toys will still expand in 1994. Total use of circuits for such language circuits as electronic musical instruments to make up Christmas and New Year's cards, handicrafts, and electronic colored light control systems are 60 million to 65 million.

In 1994 home appliance integrated circuits will take a big step. From January through October 1993, 4.69 million washing machines were sold, 48 percent of them fully automatic. Beijing's Longfu Building sold 1,094 washing machines in October, 935 of them fully automatic for an 85.5 percent share. A great many brands, such as Hefei's Rongshida [2837 0057 6671], one after another are promoting microcomputer controlled fully automatic models of

washing machines. Shanghai's Shuixian [3055 0103] brand has a digital automatic checking system and Aide [1947 1795] AQB45-2D brand utilizes six patents and initiates six processes at once. It also can automatically arrange the washing process and has four electronic clocks to set the time. Jiangmen's Jinling Bawang [6855 6875 7218 3769] machine automatically dispenses washing detergent. The Xiaoya Shengji'ao [1420 7700 5110 0679 1159] fully automatic washing machine controls the water level and turns on the machine and adds its own washing detergent and even can add heat. Hangzhou's Jinsong [6855 2646] brand uses fuzzy logic controls and can automatically set the water level, automatically set the time, automatically adjust the water flow and the washing process, and automatically implement overheating protection. The Whirlpool extra-sensitive washing machine can sense the fiber type and automatically correct and can accelerate the speed. There currently are some firms supplying the domestically designed washing machine control circuits popular overseas. Southeastern University's Microelectronic Center is researching and developing all of this themselves from integrated circuits to control panels.

Such things as wireless remote control air conditioners (with liquid crystal displays), highly sensitive gas sensors triggering exhaust fans, computer fire protected hot water heaters, microcomputer controlled dishwashers, safety videotelephone doorbells, and fully automatic vacuum cleaners are too numerous to mention. It is estimated that by the end of 1994, there will be as many as 50 million integrated circuits used to control home appliances.

[7 Mar 94 p 7]

According to information provided by the relevant department in the Ministry of Electronics Industry, the use of integrated circuits for such investment products as communications also will greatly increase this year.

The development of high technology communications products is one of the basic conditions for an information national economy. The year 1994 is an important one for China's communications industry to form an economy of scale.

1. Programmable switchboards. It is estimated that 1994's annual production of programmable switchboards will be 12 million lines, with 100 million to 110 million complete sets of integrated circuits.
2. Telephones. China's current annual telephone production capability has reached 30 million and actual production for domestic and foreign sales is about 20 million. It is an area that is ripe for batch production of a scale relative to the market. Now ringing circuits, dialing circuits, voice circuits, circuits to avoid raising the voice, liquid crystal drive circuits, and recorded response circuits for use in telephones all are being developed. The scale of this market is approximately 67 million to 71 million.
3. Facsimile. According to a continuous line of planning thought, this type of cooperative stock company is being planned in the country. Facsimile integrated circuits have a high technology content and metal content, and are rather difficult. With each instrument calculated at 20 chips, a 300,000 instrument market can be figured at 8 million chips.

4. BP machines, dageda [1129 0766 1129], photoelectric terminals, fiber-optic connector meters and other communications instruments, and satellite earth stations will use 12 million to 16 million.

5. In addition there are automotive electronics, ship electronics, traffic control projects, and mining electronics, as well as electronics to control the electrical load to save energy, electronic scales, electric meter circuits, medical instruments, personal home computers, and textile electronics.

The various things listed above are provisionally estimated at 240 million integrated circuits. From that it is forecast that 445 million integrated circuits will be used in investment type products and the share of investment type products will rise to 43 percent from 39 percent in 1992.

This year, China's self-design of application specific integrated circuits will reach something of a breakthrough.

China's integrated circuit microelectronics technology is now at a design breakthrough. Qinghua's 1 micrometer research and development line is developing the fax machine thermo-sensor head's LSI and the Qinghua Huahuan Electronics Company, Limited is striving to research parts for use in the fourth and fifth group of optical fiber equipment. The Southeast University National Asic System Engineering Technology Research Center is developing a Chinese BP machine circuit and the TP3040 and TP3057 customer coding board circuits for the programmable switchboard. The Shanghai National Microelectronic Engineering Research Center has developed the Santana automobile oil pressure warning circuit, the electronic speedometer circuit, bank and telephone magnetic strip circuits, and touch on and off circuits. The Central Research Institute of the Huajing Electronic Group has developed the four bit microcomputer circuit, the EWSD programmable switchboard circuit, the CTS-130W color television remote control integrated circuit, and the digital remote control tuning and sound circuits. The Beiling [6296 1545] Company is developing a color television remote control circuit and the 1240 programmable switchboard circuit. The Beijing Integrated Circuit Design Center has developed the world's highest grade 89C51 single chip processing circuit and a liquid crystal drive circuit. Beijing University's microelectronics department is working on a kilomega high speed ECL circuit. China is presently making a concentrated effort to research and test 2 micrometer, 1.65/1.2 micrometer, 1 micrometer, and even 0.8 micrometer product technology. Moreover, units are closely integrating design and application and linking them to domestic and foreign processing.

In addition, in the large market and in the high technology set-up, competition in the area of integrated circuits will open up in all directions; science, industry, and trade.

In 1994 foreign companies will take advantage of the integrated circuit market, relying on their superior technology and finances, and they will pay a great deal of attention to service, even opening up the market for door to door service. So, in 1994 integrated circuit market competition will not be with illegally imported goods, but with authentic foreign products and their agents, competition in science and technology, between state enterprise and joint venture production, in trade and information service, and in every direction; science, industry, and trade.

Statistics on Light Industrial Output in February

HK1803114894 Beijing CEI Database in English 18 Mar 94

[Text] Beijing (CEIS)—Following is a list of the output of China's light industry in February 1994, released by the State Statistical Bureau:

Item	Unit	2/94	2/93
Bicycle	10,000s	239.73	301.80
Sewing machine	10,000s	45.93	64.81
Watch	10,000	1094.88	499.12
Camera	10,000s	137.76	35.36
TV set	10,000s	191.83	209.76
Color TV	10,000s	96.87	85.15
Video recorder	10,000s	11.51	8.00
Radio	10,000s	126.55	110.12
Tape recorder	10,000s	219.68	209.24
Hi-fi	10,000pc	42.43	19.70
Washing machine	10,000s	77.50	66.03
Electric fan	10,000s	356.57	386.90
Refrigerator	10,000s	48.13	36.22
Freezer	10,000s	18.11	12.54
Air conditioner	10,000s	33.09	17.77
Vacuum cleaner	10,000s	10.38	7.61
Electric cooker	10,000s	106.18	76.32
Sugar	10,000t	151.01	158.28
Salt	10,000t	58.94	61.00
Cigarettes	10,000c	198.60	282.49
Beer	10,000t	65.40	67.30
Liquor	10,000t	45.01	44.98
Canned food	10,000t	9.87	12.70
Dairy products	t	26213.84	22977
Food	10,000t	166.86	274.52
Machine-made and kraft	10,000t	97.06	106.64
Newspaper	10,000t	5.26	4.77
Relief printing paper	10,000t	4.56	4.47
Synthetic detergent	10,000t	11.24	13.87
Daily fine aluminium products	t	6932.20	5063.00
Plastic products	10,000t	39.10	37.09
Farming film	10,000t	4.23	6.94

Notes: s - set, pc - piece, t - ton, c - carton, m pc - million piece

Output of Mechano-Electronic Products in February*HK1803115194 Beijing CEI Database in English 18 Mar 94*

[Text] Beijing (CEIS)—following is a list of the output of China's major mechano-electronic products in February 1994, released by the State Statistical Bureau:

Item	Unit	2/94	2/93
Power equipment	10,000kw	50.14	59.09
AC motor	10,000kw	465.17	444.45
Industrial boiler	ton	3454.60	5594.00
Machine tool	10,000 set	1.30	1.97
Including: NC machine tool	set	511.00	769
Precision machine tool	set	111	67
Large machine tool	set	227	335
Automobile	10,000	8.46	10.42
Including: Bus	10,000	0.57	0.65
Car	10,000	1.53	1.83
Truck	10,000	4.32	4.51
Motorbike	10,000	23.78	51.90
Tractor (20hp/above)	10,000	0.35	0.43
Small tractor	10,000	8.43	8.95
Locomotive	set	61	67
Including: Diesel	set	48	47
Steam	set	2	2
Electric	set	11	18
Passenger coach	set	116	164
Freight wagon	set	2386	2455
Internal combustion engine	10,000kw	623.31	858.50
Fishing ship		-	-
Civil steel ship	10,000ton	5.77	5.05
Computer	set	4	37
Micro computer	set	4591	3662
Color crt	10,000	94.19	50.60
Program-controlled switchboard	10,000 set	59.55	27.44

Statistics on Raw Material Output in February*HK1803114994 Beijing CEI Database in English 18 Mar 94*

[Text] Beijing (CEIS)—Following is a list of the output of raw materials in February 1994, released by the State Statistical Bureau:

Item	Unit	2/94	2/93
Iron ore	10,000t	1441.24	1553.00
Pig iron	10,000t	681.24	604.90
Steel	10,000t	727.40	689.10
Rolled steel	10,000t	639.23	608.02
Ferro alloys	10,000t	16.41	16.35
Coking coal	10,000t	500.25	456.33
Ten nonferrous metals	10,000t	26.78	25.08

(Continued)

Item	Unit	2/94	2/93
Of: Copper	10,000t	4.93	5.39
Aluminium	10,000t	10.71	9.54
Copper products	10,000t	3.68	5.32
Aluminium products	10,000t	3.42	4.23
Alumina	10,000t	14.49	14.10
Sulphuric-iron ore	10,000t	74.25	78.34
Phosphorus ore	10,000t	139.66	129.79
Timber	10,000cum	332.79	406
Artificial board	10,000cum	29.21	31.79
Cement	10,000t	2410.82	2425.30
Plate glass	10,000c	960.41	878.47

Notes: t - ton, cu m - cubic meter, c - case

FOREIGN TRADE, INVESTMENT

Article Urges Balance, Diversity in Foreign Investment

94CE0378A Beijing GUANLI SHIJIE
[MANAGEMENT WORLD] in Chinese
No 52, 24 Jan 94 pp 152-157

[Article by Mu Haiping (1970 3189 1627): "Analysis of Direct Foreign Investment Problems, Trends"]

[Text]

1. Analysis Of Basic Trends

Direct foreign investment in China has soared in the past two years, resulting in another surge in the utilization of foreign investment, the second since the 1980's, and ushering in a new era in foreign investment. A number of new trends is detectable.

1) Scale Of Investment

In terms of the overall scale of foreign investment, 40,264 projects were approved nationwide in all of 1992 with a total negotiated value of \$57.51 billion, while the amount actually invested was \$11.3 billion, up 180 percent, 280 percent, and 60 percent, respectively, from a year ago. The rapid increase in the overall scale of foreign investment has been accompanied by an increase in the scale of individual projects. According to preliminary statistics, the average negotiated investment of a project in 1992 was \$1.2 million, compared to \$900,000, the average four years ago. In the three provinces of Jiangsu, Guangdong, and Shandong, all leaders in the utilization of foreign capital, there were 254, 200, and 152 large and medium-sized projects, respectively, each with a price tag over \$10 million. The simultaneous expansion of the overall scale of investment and the scale of individual projects is one of the salient features of the latest surge in foreign investment in China.

The major causes of the surge in foreign investment are not external but have to do with changes in China's internal economic climate. While economic growth in the rest of the world remains sluggish, trade imbalances

widen, and funds are short in recent years, the Chinese economy has been racing ahead full steam, its economic system beginning to operate like a socialist market economy, its large- and medium-sized enterprises transforming their operating mechanism with despatch, its other economic sectors booming, and its foreign trade flourishing. All of that has vastly improved China's investment climate, further tapped its market potential, and created even better conditions for foreign investment.

2) Investment Mix

Guided by the adjustment of the nation's industrial policy, the composition of foreign investments also changed substantially in 1992. Foreign investment in the infrastructure, in basic industries, in capital- and technology-intensive industries, in technological transformation, and in the tertiary sector, including banking, commerce, tourism, and real estate, rose proportionately, thus broadening the area open to foreign capital. In the geographical distribution of foreign investment, the trend is for foreign capital to move north and west. The coastal economic region, anchored by Pudong, Shanghai; the economic zone surrounding Bohai, with its relatively sophisticated industrial structure; and many provincial capitals and border areas have become the new hot spots for foreign investors. All in all, although the generalization that foreign investment is concentrated in the southeastern coastal region and in processing industries remains basically valid, we can see trends toward dispersal and diversification.

Changes in the direction and composition of foreign investment are a function of the implementation of China's across-the-board open policy, the decision by the government to ease restrictions on foreign investment in some areas, and, most important, on shifts in comparative advantage at home. Already China has set up a whole range of foreign investment preferential zones, including special economic zones, economic and technical development zones, opened ports along the coast, rivers, and borders, economic development zones, and tax protection zones; and further delegated the power to examine and approve foreign investment

projects, the result of which is to narrow the comparative advantage of one locality vis-a-vis the next in policy power. Changes in the costs of capital goods like labor, land, and resource, in particular, have forced a number of localities which have been major destinations of foreign capital to accelerate industrial upgrading and outward dispersal. Hence the objective trend of an increase in scale leading to structural upgrading.

3) Forms of Investment

Of all direct foreign investment in China in 1992, Sino-foreign joint ventures accounted for \$6.1 billion, or 55 percent; Sino-foreign contractual joint ventures, \$2.1 billion, or 18 percent; wholly foreign-funded enterprises, \$2.5 billion, 22 percent; and others (including cooperative development, international leasing, compensation trade, processing and assembling), \$500 million, or 5 percent. If we look at the various forms of investment one by one, Sino-foreign joint ventures first constituted over 50 percent of total investments in 1987 and have always fluctuated between 50 and 55 percent ever since. Wholly foreign-funded enterprises accounted for a minor share of total investment throughout the 1980's and have shown notable growth only after 1990, rising from less than 10 percent in 1989 to 25 percent. The absolute value of Sino-foreign contractual joint ventures consistently hovered around \$700 million between 1986 and 1991. As the overall scale of foreign investment expanded, however, its share of total investment headed downward only to rebound sharply in 1992, climbing more than 178 percent. Changes in the other forms of investment have been insignificant because they account for a tiny share of all investments.

The above analysis shows that there are three major forms of direct foreign investment in China, namely the Sino-foreign joint venture, Sino-foreign contractual joint venture, and wholly foreign-funded enterprise, which between them make up 75 percent of all foreign investment. At present, foreign-funded enterprises in the north are more likely to be Sino-foreign joint ventures, while foreign investment along the southeastern coast typically takes the form of wholly foreign-funded enterprises. This also reflects on an objective level the differences between north and south China in economic structure, institutional characteristics, and degree of openness.

4) Results of Investment

China utilizes direct foreign investment in order to expand the scale of capital formation, raise the enterprises' product standard and technical level, increase foreign exchange-earning exports, enhance national income, and learn managerial and administrative experiences. Judging from the present situation, it has achieved these objectives to varying degrees despite much unevenness in development.

To begin with, as its scale expands, direct foreign investment is playing an increasingly important role in supplementing fixed assets investment in all society. Actually utilized foreign capital accounted for 3 percent or so of all social fixed assets in the 1980's, rose to 4.5 percent in 1991, and exceeded 8 percent in 1992. Secondly, the three kinds of enterprises either partially or wholly foreign-funded that are already in business have filled

part of the void in China's lineup of industry, boosted the upgrading of the industrial structure, and greatly narrowed the technical gap between China and the world. The southern Chinese coast, where the manufacturing industry used to be relatively weak, is now the nation's leader in some processing technologies, product design, and other areas. By attracting foreign funds and importing foreign technology, 63 percent of the technical equipment in Beijing's industrial enterprises have now reached the international standards in the late 1980's, leaping through 30 years of technological progress in less than eight years. The utilization of foreign capital has striking effects in the technical advances China has made in optical fiber and cable communications equipment, automated instruments and meters, color kinescope, elevator, large-scale integrated circuitry, microcomputer, automobile, new building materials, and drugs. Thirdly, the three kinds of enterprises that are either partially or wholly foreign-funded have spurred the development of China's foreign trade. In 1992, they accounted for 26 percent of the nation's total exports and imports, or \$41.8 billion, an increase of 51 percent, including \$17.4 billion in exports and \$26.4 billion in imports, 20 percent and 44 percent, respectively, of China's total exports and imports. Finally, following the expansion of the production scale of the three kinds of enterprises, the state is also collecting more revenue—\$10.7 billion in 1992, up 53 percent over 1991—generated by foreign economic activities. Meanwhile, employment at the three kinds of enterprises has also been climbing year after year, accompanied by a notable increase in workers' wages. As of late 1992, almost 140,000 people were on the payroll of the three kinds of foreign-funded enterprises in Beijing, their per capita wage exceeding that of their counterparts in domestic enterprises of the same industry by more than 30 percent. Xiamen Shi has adopted regulations explicitly mandating that wages in the three kinds of enterprises exceed those in comparable Chinese enterprises by more than 20 percent. The three kinds of enterprises have become a key avenue for workers in pursuit of higher incomes. Then there are the many intangible ways in which the three kinds of enterprises have been a boon. With their management model based on the market economy and depending on their source of capital, they provide a good example for Chinese enterprises trying to transform their operating mechanism. By serving as a bridge linking the domestic and international markets and disseminating information, the three kinds of enterprises are helping to shape public thinking and mode of conduct.

2. Major Problems

Substantial progress has been made in the utilization of direct foreign investment. However, as the national economy develops and the macroeconomic situation changes, the further development of the three kinds of enterprises still faces many problems that need to be worked out.

1) While the scale of foreign investment has expanded rapidly, the composition of investment is less than sound. According to statistics, it was the industrial sector soaking up foreign capital in a big way that accounted for

the sharp jump in the utilization of foreign capital since the 1980's. In 1985, the negotiated amount of direct foreign investment was \$6.333 billion of which \$2.384 billion, or 37.6 percent, went to industry. Corresponding figures in 1990 were \$6.986 billion \$5.943 billion and 85 percent, respectively; and in 1991, \$12.422 billion, \$10.055 billion, and 80.9 percent, respectively. Within the industrial sector itself, direct foreign investment is concentrated in labor-intensive processing and manufacturing industries. This investment pattern changed somewhat in 1992, with the tertiary sector gaining strength relative to total investments, but there has been no basic shift in the overall situation.

According to the conventional development theory of the utilization of direct foreign investment, it is necessary for the production sector to dominate the investment mix. However, two points are noteworthy. First, the mix of foreign investment should be compatible with the stage of economic development the country is in at a given time. In other words, when foreign investment reaches a certain scale, other fields should gradually be opened up and made more attractive to foreign capital. The comprehensive planning capability of the three kinds of enterprises should be enhanced. Second, the mix of foreign investment must not be considered in isolation from the constraints of the domestic economic structure. At the present stage, most of such constraints are found in the basic industries and the infrastructure. Make use of foreign capital to relieve the bottlenecks instead of pursuing ill-considered development that will wind up exacerbating the bottlenecks. Direct foreign investment in the processing industry these days is increasing too rapidly, objectively requiring us to further broaden the scope of investment. In particular, we should step up measures to make the infrastructure and basic industries more attractive to foreign investors.

It is also worth noting that of all direct foreign investment in traditional industries, most goes to the finished products of the processing and assembling industries while relatively little goes to capital goods and intermediate products. We can get a glimpse of this pattern from the imports and exports of the three kinds of enterprises that are either partially or wholly foreign-funded. In 1992, those enterprises ran up a deficit of \$9 billion in their foreign trade. Most of their imports were machinery, equipment, raw materials, and parts and components. This also shows that China's utilization of foreign capital is concentrated in downstream industries with the upstream industries lagging in development.

- 2) While foreign-funded projects are hotly pursued, there are no coordinated measures to manage a project after the deal is clinched.

Against a backdrop of runaway growth, every locality strapped for funds looks to foreign capital to close the gap in its funding sources. At one point all jurisdictions were scrambling to introduce preferential policies to attract foreign capital and delegate power to manage foreign projects. In a certain sense, preferential treatment and delegation are inherent in China's drive to open itself up to the outside world, attract foreign

capital, and advance economic development. But this does not mean that we should go easy on management and pursue projects to the exclusion of everything else. In our investigations, we discovered there is indeed a tendency everywhere to scramble for projects. Some even set a specified number of foreign-funded projects as target to be fulfilled by the levels below. How well they meet the targets has become the yardstick by which their performance is judged.

Major problems that occur after a deal is struck are:

First, while the amount of foreign investment negotiated is large, the sum actually realized is on the low side. Many contracts are drawn up and signed, but the percentage that opens for business is not high enough. In the Beijing area, for instance, direct foreign investment amounted to \$8.11 billion on paper by 1992, but only \$3.95 billion, or 48.2 percent, were actually realized. During the same period, Beijing approved a total of 3,769 projects involving the three kinds of enterprises either partially or wholly foreign-funded. In reality, a mere 942 companies opened for business, for a business start-up rate of 25 percent. In Fujian Province, only 30 percent of the three kinds of foreign-funded enterprises were fully capitalized in accordance with the terms of their contracts. In Zhejiang Province, the contract investment compliance rate is just 45.7 percent or so.

Furthermore, land is being occupied illegally and there are no economies of scale. To attract foreign investors, some localities have been treating land as a cheap resource, setting land prices in development zones at excessively low levels. Farmland is being taken in a big way and the interests of local peasants are not properly safeguarded. Some localities have even introduced investment incentive policies under which an investor is free to "decide its own project and pick the plant site." There is no overall planning. Many small-time and highly opportunistic foreign investors take advantage of policy loopholes at every turn to profit themselves. The result is a scale of operations that is highly uneconomical with no external economies.

In addition, losses are mounting and tax under-reporting and evasion are widespread. By 1991, over 2,500 enterprises either wholly or partially foreign-funded were in operation in Fujian. Of these 2,500 enterprises, more than 1,200, or 48 percent, were losing money to the tune of 400 million yuan in all. By 1992, 2,338 foreign-funded enterprises had opened for business in Zhejiang, of which 37 percent were unprofitable, their combined losses amounting to almost 100 million yuan. Meanwhile, 50 percent of the three kinds of foreign-funded enterprises in Beijing were losing money. There are various reasons for the unprofitability of foreign-funded enterprises, some policy-related, some having to do with the way they are operated and managed. However, a good number of these enterprises claim to be losing money but are actually making a profit. By falsifying their books and importing at high prices and exporting at low prices, they hope to evade paying taxes. In an audit on 1,311 enterprises either partially or wholly foreign-funded, the tax department in Shanghai identified 447 tax cheaters, or 34 percent.

- 3) The importation of "hardware" is stressed, but the importation of "software" is neglected. In particular, there are no mechanisms for absorption, assimilation, innovation, and dissemination.

A key objective of the utilization of direct foreign investment is to import advanced foreign technology and introduce into China advanced foreign managerial experience. Only when such "software" is mastered can we consider the utilization of foreign capital to have basically achieved its objective. Judging from the reality in the development of the three kinds of foreign-funded enterprises, the infusion of foreign capital has indeed introduced into the country a considerable amount of advanced machinery and equipment. However, most of this equipment consists of processing and assembling production lines. Apparently what we have been getting is the final product, not technology or management. This leads to a host of problems. First, it increases the import content of the final product. To a large extent, it is our desire to increase exports and earn more foreign exchange that lies behind the development of the three kinds of foreign-funded enterprises. But since both capital goods and intermediate products consist heavily of imports, they in effect cause us to spend more foreign exchange, thus lowering the foreign-exchange-earning rate of exports. Second, it multiplies the costs of attracting a project. Without absorption and assimilation, it is very hard to avoid project duplication and excessive competition in the utilization of foreign capital. To facilitate the effective application of "hardware," we are also forced to increase the importation of related materials and parts correspondingly. Third, it lowers the efficiency with which hardware is applied. Advanced machinery and equipment need to be backed up by advanced management. In China, the operating mechanism of enterprises is less than perfect and the level of enterprise management is low. If the development of the three kinds of foreign-funded enterprises cannot break new ground in these areas, then we would have trouble realizing the benefits of the utilization of foreign capital. The dissociation between technology and management may even cause an enterprise to lose money and go bankrupt.

- 4) The distribution of the three kinds of foreign-funded enterprises is over-concentrated and the geographical division of labor does not make much sense.

By and large the three kinds of enterprises are over-concentrated in south and east China, which is consistent with the objective reality of uneven economic development in China. But this is not the only problem. Even more serious, the three kinds of enterprises everywhere share a basically similar structural distribution. As power is delegated, moreover, development zones and opened zones, with their heavy concentration of foreign capital, also tend to converge functionally. Local characteristics are being overlooked and the lines of division of labor are being blurred, problems that will only continue to worsen.

The adverse consequences of this kind of regional division of labor are twofold. On the one hand, there is no coordination between one region and the next when it comes to development. On the contrary, they impose a

blockade against one another and engage in cut-throat competition. For the most minor local benefits, they would launch a project helter-skelter, without considering whether it is within the capability of the macroeconomy. Hence the overcapacity in some foreign-funded enterprises, worsening the bottleneck effects in the macroeconomy as a whole. On the other hand, it has prevented the many potential strengths of the localities from being tapped. The interior abounds with resources, but since only a tiny trickle of funds makes its way into the interior and it lacks processing capability, its edge in resources has not been converted into a strong industry that will back up the development of the entire economy. Furthermore, although the heavy and chemical industries of north China are a leader in the nation, the absence of funds to finance technological transformation and the lack of foreign capital to overhaul the mechanism have prevented them from generating as much profits as they should, which, in turn, has complicated their effort to adjust the industrial structure or upgrade the export mix more successfully.

The nonspecialization tendency of the three kinds of enterprises in the various economic regions may exacerbate the inter-regional development imbalance, complicating industrial development planning and macroeconomic management, and possibly enable foreign investors to "fish among troubled waters."

3. Future Strategic Choices

All in all China's macroeconomic environment has now changed enormously. Under the stimulus of the market mechanism, the national economy has been growing by leaps and bounds, new industry hot spots have been springing up endlessly, traditional industries are coming under mounting competitive pressure, and the existing infrastructure and basic industries fall far short of meeting the requirements of opening China to the outside world. Changes in foreign economic relations too seem to have been just as striking. To speed up its accession to GATT, for instance, China has taken a number of new steps that would bring itself more in line with international practices in such areas as market accessibility, intellectual property rights, imports-exports management, national treatment, and service trade. Meanwhile, new moves are constantly being made to prepare a coherent body of laws pertaining to foreign economic relations, overhaul government functions, and improve foreign capital service organizations. It was precisely against this backdrop that the utilization of direct foreign investment in China entered a period of runaway expansion. How should we review our experience, overcome existing problems, and step up guidance, regulation, and control to enable it to continue to grow healthily in a sustained manner in balance with national economic growth? This is an issue that every quarter should pay close attention to.

Given the present situation, we believe we should adjust the way we utilize foreign capital and develop the three kinds of foreign-funded enterprises from a strategic high ground. Instead of quantitative growth and extensive management, we should go after qualitative upgrading and intensive management. Enhance the economic and social benefits of the utilization of direct foreign investment across the board

and lift the development of the three kinds of foreign-funded enterprises to a new plateau.

- 1) Based on the changes specific to a particular stage in the opening of China, we should replace the unitary strategy of foreign capital utilization with one that is diversified. There are three basic points. First, preserve and further the key role played by labor-intensive processing industry in attracting foreign capital, expanding exports, and earning foreign exchange, but take care to improve quality and increase added value so that the industry performs even better as a source of accumulation. Second, increase the proportions of direct foreign investment that go to the infrastructure, basic industry, technological upgrading, and the tertiary industry. Improve the industrial distribution of the three kinds of foreign-funded enterprises as a way of upgrading the industrial structure. Third, encourage the two-way flow of funds. Localities and enterprises with the necessary wherewithal should be allowed to develop multinational operations and set up joint ventures overseas. Increase the mobility of capital goods to tie in with the all-out opening of China.
- 2) Strive to improve the geographical distribution of foreign capital even as we adopt a diversification strategy to balance its industrial distribution. At present the most popular destinations of foreign investment remain concentrated in the southeastern coastal region. As the rivers and borders become more and more open, therefore, foreign investors are poised to strike out in a northern and western direction. Accordingly, we should take advantage of this trend and consider offering liberal preferential policies in the north and the interior so that the foreign investment fever now centered on the Zhu Jiang delta, southern Fujian, and the Chang Jiang delta would soon spread to north China and the interior, with more foreign-funded enterprises emerging in the backward areas in the 1990's. In the course of seeking balanced regional development, we should pay attention to regional characteristics and practice specialization and division of labor on an economic regional basis. Make the areas around Bohai and northeastern China the focus of the "northern push." The development strategy there is to use the existing edge in chemical industry, heavy industry, and electrical machinery industry to develop in a big way export-oriented and capital- or technology-intensive enterprises that are either partially or wholly foreign-funded, upgrade the industrial structure, and effect import substitution. [As published] The development strategy is to rely on central cities, exploit its ample resources, go all out to make the region along Chang Jiang and the Gansu-Hainan railroad the focus of the importation of foreign capital and technology, develop foreign-funded enterprises of the resource-processing type in order to enhance China's own resource-supplying capability, and manufacture capital goods and intermediate articles domestically to substitute imports.
- 3) To bring about strategic adjustments in the utilization of foreign capital, we should make more extensive use of the industrial policy as a guide. This essentially means three things. First, encourage large-scale projects, technology-intensive projects, and high-added-value

projects. Scale back and perhaps abolish preferential treatments for low-grade low-end industrial projects in order to make good use of the policy of utilizing foreign investment. Second, to carry the industrial policy through, the state may consider gradually changing the examination and approval of a foreign-funded project by scale to examination and approval by industry (product), and cut back on projects in industries that need to be curbed while thoroughly deregulating those projects in industries that need to be encouraged. Support may be given at a policy level to projects that would help ease the bottlenecks hampering economic development. Evaluation work in the utilization of foreign capital should put more stress on the profitability target and quality target. Avoid the tendency among grassroots units to pursue quantity exclusively through administrative intervention at cross purposes with the industrial policy. That way, the development of the three kinds of foreign-funded enterprises, the construction of development zones, and the introduction of preferential policies would become more compatible with the requirements of the industrial policy.

- 4) Turning to the methods of foreign investment utilization, we should concentrate on the Sino-foreign joint venture format. In particular, we should encourage large and medium-sized state enterprises to form joint ventures with multinational corporations. The Sino-foreign joint venture is the one form of cooperation in the utilization of direct foreign investment where its management is most amenable to the influence of the Chinese partner and where the Chinese side can gain access to technology and managerial experience. Large and medium-sized state enterprises embody the level of technology and management direction at home, in the same way that multinational corporations embody the level of technology and development direction globally. Accordingly, joint ventures combining the two can result in the upgrading of foreign-funded enterprises and make the utilization of foreign capital a more powerful stimulant of the national economy as a whole. Change the methods of foreign capital utilization, from small to large, from low-end to upscale. The idea is to put an end to a pattern of conduct—short-sighted and speculative—existent in the three kinds of enterprises, namely "emphasizing importation but overlooking absorption and assimilation"; accelerate the transformation of the operating mechanism of large and mid-sized state enterprises; and give them greater development strength to open up the international market.
- 5) Invigorate the management of foreign capital utilization in the later stage and carry through with the foreign investment strategy centered on the increase of profitability to the point where it really matters. On the one hand, simplify and standardize the examination and approval procedures for the three kinds of enterprises and improve work efficiency so that both the Chinese side and its foreign counterpart get the project off the ground without delay in accordance with the contract. On the other hand, set a firm date based on the circumstances of the case by which a foreign funded enterprise must go into operation. If the enterprise fails to do so, its business license may be revoked in accordance with the law. Alternatively, the department in charge may review

its application. A corresponding effort should be made to revise the pertinent policies, laws, and regulations. Furthermore, where management policies are discriminatory in nature, for instance, disparities exist between the preferential policy of one region and that of another or when the setting of foreign sales ratios is discriminatory, we should proceed to even up or eliminate the disparities and gradually achieve national treatment for the three kinds of enterprises in accordance with international practice, creating an orderly competitive environment with a level playing field.

- 6) Improve the basic climate for attracting foreign investment and better comprehensive services for the three kinds of foreign-funded enterprises. Essentially this will involve the following:

First, set up without delay a unified nation-wide information service network which foreign-funded enterprises can tap into for a fee. The network should provide the enterprises with information on overseas market movements and on prices of raw materials and products to help them make the right decisions. It will also help the Chinese manager familiarize himself with the situation and effectively prevent the foreign managers of foreign-funded enterprises from importing at high prices and exporting at low prices and shifting profits around to avoid paying taxes.

Second, raise the standard of management and administration at foreign-funded enterprises. Augment training for Chinese managerial personnel. On the one hand, we should take pains to review the managerial experiences and methods of different kinds of foreign-funded enterprises. Work hard to assimilate and innovate upon them to benefit tangibly from the utilization of foreign capital. On the other hand, we should tackle the improvement of the quality of Chinese managerial personnel as a basic task in foreign capital utilization. Offer on-the-job training for the personnel of foreign-funded enterprises in a variety of ways and at all levels to meet the requirements of achieving a new high in foreign capital utilization.

Third, accelerate the socialized management of foreign-funded enterprises. In areas with a heavy concentration of foreign capital, in particular, we should create an economy to go with the three kinds of foreign-funded enterprises by doing a good job in regional planning and social service coordination, thereby making things more convenient for the three kinds of foreign-funded enterprises in daily life, health care, education, and culture.

Fourth, accelerate fiscal reform, financial reform, and foreign trade reform. Sort out the relations among tax rates, interest rates, and exchange rates step by step in accordance with the requirements of the development of a market economy. Optimize the macroeconomic climate so that foreign-funded enterprises can operate and do business in a better institutionalized and statutory environment.

(Writer's unit: Economic Research Center, State Planning Commission; responsible editor: Wang Yun [3769 5366])

Suggestions for Foreign Investment Policy Changes

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[Summary of "International Forum on Beijing's 1993 Transnational Corporations and China": "On Further Improving China's Foreign Investment Climate and Attracting Investment by Transnational Corporations"]

[Excerpt] [passage omitted]

III. A Reassessment of China's Investment Climate, and Policy Suggestions

The participating delegates held that in the broad setting of the evolving new world economic order and the appearance of an international production-network system, in order to adapt to the ever-changing climate and its new demands and opportunities, and to get onto track with the open international economic situation and become more internationally competitive, China needs to reassess its climate and policy framework for direct foreign investment in China. It was precisely in line with that constructive spirit that this forum made a number of suggestions for consideration by the Chinese government, aimed at helping China to further improve its current foreign-investment-policy laws and regulations, so that it can attract more foreign investment to speed up its economic growth and development, particularly direct investment by large transnational corporations.

The delegates' general line of thinking was that on the occasion of China's transition from a planned to a market economy, China's economic reform should be focused on building a market-oriented macroeconomic climate suited to both foreign and Chinese investment, whose climate ought to be both stable and predictable. This will mean establishing the appropriate legal framework and system structure for the sound operation of a market economy; a convertible currency; an effective finance and banking system; a competitive market structure; transportation and communications infrastructures to aid commercial transactions; and constantly improving human capital and technical skills. It will also require policy measures and management plans that will put all domestic and international economic activities on the same track. As to long-range objectives, the pertinent policy laws and regulations on direct foreign investment should be transparent, grant enterprises decisionmaking power, guarantee national treatment without ethnic discrimination, provide procedures for resolving disputes, and permit the outward remittance of bonuses.

In order to gradually realize these objectives, the delegates made many suggestions, which were quite constructive and definitely feasible, so that we should pay them adequate attention, to pave the way for choosing the best ones to follow.

1. On Adopting a Policy Slanted Toward Large Investment Projects

As to large investment projects in line with China's industrial structural-adjustment orientation (such as

high-tech, power, and transportation), we need to provide full encouragement and support, by making a transition of preferential policy from a regional to an industrial slant.

2. On Allowing the Establishment of Holding Companies

The forum welcomed the suggestion made by China's foreign-investment management sector to allow the establishment of holding companies. Based on established holding companies, such as the U.S. Hewlett-Packard Co, IBM, Du Pont, and Motorola, and the Netherlands Philips B. V., we could gradually expand the experimental scope, to allow these types of companies to practice effective and integrated management of their subordinate joint-venture enterprises, and to enjoy a nationwide corporate status, in order to bring their overall operating and comprehensive advantages into full play.

3. On Further Opening Up Markets

China's current market capacity and market openness are out of proportion, leaving us with the problem of "a large market with a low degree of openness." Except for industries, such as food, industrial and agricultural machinery, metal goods, toys, and sporting goods, where we have no restrictions on foreign investment, we subject all other industries to varying degrees of restrictions. It was suggested that except for projects that involve national security, military affairs, harm to physical health, or destruction of the ecology, all other industrial sectors should be opened up to foreign investment. As China's transnational enterprises have free access to foreign markets, foreign transnational corporations ought also to have relatively free access to the Chinese market.

We should let capital- or technology-intensive transnational corporations sell part or all of their products on China's domestic market, and not put any hard limitations on their production scale. To attract high-tech and export-oriented joint ventures, local-content provisions (made-in-country provisions) and raw materials and parts import-restrictions should be eased.

4. On Encouraging Access by Transnational Service Companies

As production activities and production services are closely linked, introducing transnational service companies will help to attract direct foreign investment in our manufacturing industry. Meanwhile, transnational service company access will promote competition in our local service-trade market, to stimulate tertiary industry growth. China should encourage foreign investment activity in banking, insurance, air carriers, communications, advisory service, accounting, quality authentication, and other commercial service sectors. When conditions are ripe, we should consider allowing foreign firms to set up trade subsidiaries, to be granted the authority to engage directly in foreign trade.

5. On Reforming Examination and Approval Formalities

The Chinese Government revises its project catalog yearly and openly encourages the use of foreign investment, to guide foreign-investment orientation. We need examination and approval jurisdiction based on varying industrial categories instead of on varying overall investment provisions. While we have taken certain steps to speed up the examination and approval process (such as setting up a window investment-service center), the process still needs further streamlining, acceleration, and more transparency. The respective obligations of the central and local governments need to be set forth as clearly as possible in pertinent issued documents. Once a project is approved, the legal documents (such as joint-venture enterprise contracts) should be subject to only legitimate acceptance inspection.

6. On Making Policy-Related Laws and Regulations More Transparent

All domestic laws and regulations directly relating to investment in China by foreign firms should be easy obtainable, or openly published. As this process has been started, it needs to be speeded up and continued. Such transparency will contribute on a nationwide basis to the continuity of business and trade policy, and to the consolidation and standardization of laws and regulations, to keep policies from being made in too many places.

The current FIE Law should be dovetailed and matched with other laws. We now need to accelerate our formulation of laws and regulations such as a corporation law, an anti-monopoly law, an anti-dumping law, a fair competition law, and a joint-stock company law. As the Uruguay Round has expanded the GATT-standardization field to investment related to trade, we now need to conscientiously study ways to ensure that China's foreign-investment policy is more in line with pertinent GATT regulations and international practice, in order to get it on track with the international direct-investment market.

7. On Ensuring National Treatment

Enterprises in China that are part of transnational corporations expect to be able to take part in fair competition on the Chinese market as Chinese enterprises. FIEs should be treated equally without discrimination just as China's state enterprises in areas, such as raw materials supply, prices, and loan acquisition. The government ought to eliminate subsidies and protection for state enterprises.

8. On Protecting IPRs

While we have made great progress in protecting intellectual property rights (IPRs), we still need supplemental agencies and formalities that can effectively prevent trademark infringement and fake products (grey commodities). In this area, the Beijing IPR Court that was established in the summer of 1993 is a typical example of such actions that need taken.

9. On Foreign Exchange and Finance

In order to help FIEs (particularly transnational corporations investing in large projects) balance their foreign exchange, to raise their foreign exchange availability, we should allow certain high-tech enterprises to collect foreign exchange directly when making domestic market sales; formalities for the acquisition of foreign exchange need to be made more effective. In this area, the greatest hopes are that foreign-exchange conversion markets throughout China will be coordinated, and that a transregional foreign-exchange-transaction computer network will be allowed to be linked up.

A consolidated diversified exchange-rate system should be completed as much as possible, with the conditions created to make the yuan a convertible currency. As Vietnam was able to consolidate its currency conversion rates in such a short period of time, it is obvious that this problem is not mainly one of development level, but rather of policy. We should permit foreign banks to operate RMB services.

The Chinese banking system needs to raise its work efficiency. As its current telegraphic accounts transfer that actually takes 3 weeks is unimaginable, foreign banks could provide technical assistance in this area.

As about 50 percent of current global overseas investment is through stock markets, we ought to make securities investment a key means of attracting investment in China by transnational corporations. So it is suggested that we expand the offering of B shares by China's large and midsize listed state companies, to pave the way for access by transnational corporations through purchases; we should expand the experimental scope and offering volume of listed stock offerings by wholly foreign-owned or joint-venture joint-stock companies, with their listed offerings of B shares not subject to domestic restrictions on annual stock-offering volume.

10. On Upgrading Infrastructures

The most important task is to reinforce our existing transport system, particularly the transport system that links up China's key cities. Raw materials arriving at our ports now require more than 1 month to get to consumers. Our public-transport scheduling is also very difficult, with it being very hard to know accurate delivery dates in railway transport, many water-transport stoppages, and our long-distance truck transport network being very incomplete, affecting timely and steady provision of products to customers and consumers.

11. On Increasing Labor Mobility

Foreign subsidiaries in China should not be subject to obstructions in hiring qualified employees in any area, as well as being without wage-barrier restrictions, and FIE employees should have the right to take their

dependents with them. In addition, as FIE local or foreign employees need better housing and related facilities, FIEs that want to improve their employee housing should be allowed to do so through having foreign construction companies do the building.

Chinese employees of joint-venture enterprises who need to be sent abroad for training or to engage in commercial activities should be able to obtain very quickly the necessary travel documents (passports and visas); qualified FIE employees sent abroad should be trusted and, when necessary, be provided guarantees.

12. On Emphasizing Education and Training

Education and training to develop host-country local human resources, to provide full categories of talent qualitatively and quantitatively, is one of the most important regional terms to attract transnational corporations (particularly high-tech companies). China needs to invest more resources in education and training at all levels, so that the efforts made by transnational corporations in the areas of technical and management training can be fully assimilated throughout China. We now need to focus on post-graduate training, in an attempt to ensure that China's younger generation has favorable qualifications for being more competitive in international business circles as the next century approaches. Transnational corporations need graduate students from schools, such as the China-Europe Management Center and the Nanjing U-John Hopkins China-U.S. Cultural Studies Center, to train into tomorrow's managers and leaders.

13. On Adopting International Criteria

It is hoped that China will adopt international criteria to support the development of enterprises set up in China by transnational corporations. In particular, the Chinese Government should adopt current international safety and anti-pollution standards, applying them equally to state and foreign-invested enterprises; all industrial enterprises should adopt uniform international quality and engineering standards, in order to produce high-quality and high-standard raw materials and parts for supply to local purchases by FIEs.

14. On Macroeconomic Stability

Transnational corporations are even more hopeful that China's economic development will be steady, and not just fast. Macroeconomic regulation and control needs to consist more of regular fine tuning, in order to keep the economy out of cyclical fluctuations of volatile overheating and overcooling. We need to note the currently existing severe inflation rate, rapid growth of the money supply, plummeting value of the yuan, enormous fiscal budget deficits, large amount of non-productive real estate speculation and fund misplacement, and huge state-enterprise losses and subsidies. All of these problems are in need of serious government attention.

Coordinating Foreign Trade, Investment Policies
94CE0327A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 144, 15 Dec 93 pp 29-31

[Article by Gu Kejian (6253 0344 7003), Faculty of Economics and Trade, Zhongnan University of Finance and Economics: "Macroeconomic Coordination of Foreign Trade and Foreign Investment Policies"]

[Text] In implementing China's policy of reform and opening, foreign investment in our enterprises has become a positive force which incrementally expands our export-import boundary. In the first three quarters of this year, the total export value of foreign-funded enterprises as a percentage of China's total export value has increased to 26.4 percent from 19.8 percent of the same period of the year before. In China's foreign trade area, foreign-funded enterprises now play an increasingly important role, leading to calls for relaxing the current foreign trade policy controls and enlarging the foreign trade policy sphere to include foreign investment activities, particularly in terms of effectively using the mechanism for coordinating the two closely related production models utilizing foreign capital, namely, import substitution and foreign exchange earning exports.

1. Theoretical Inquiry Into Coordination of Foreign Investment and Foreign Trade Policies

In terms of China's foreign trade objectives and choice of methods in the utilization of foreign capital, we should use as foundation the best macroeconomic approaches for raising capital and handling returns on investment. Generally speaking, in the process of attracting foreign investment, the macroeconomic approaches to capitalization and returns on investment involves the creation and outflow of national income. The main factors which influence this process include: 1) the basic structure and changes in enterprises as a function of the production; 2) determination of the points of competition; 3) the risk of imbalance in foreign exchange receipts and expenditures accounts. We should consider the composite effect of the above-mentioned three main factors in deciding how foreign investment policy should be coordinated within the foreign trade policy area.

1. Foreign investment policy and the objective of an export-oriented foreign trade policy

The exports of China's foreign-funded enterprises are geared to markets of developed countries, and some products are even exported directly back to the investors' home countries; because of fierce competition in developed countries and in order to remain reasonably competitive in their marketing environment, foreign investors in China must fully exploit the two major advantages in establishing and operating any enterprises, namely, host country's low costs and investors' own relatively superior managerial standards. In considering the various ways for utilizing foreign capital, direct foreign investment which transfers a series of key components of capital, technology, management and operating procedures, particularly the "surplus" managerial component of multinational companies, can help our enterprises expand their exports and rapidly realize the goal of earning foreign exchange via exports. This year, China's external trade has shown a sharp decline, but

exports are booming for the export-oriented foreign-funded enterprises or processing enterprises in which foreign capital plays a leading role, which clearly demonstrates the stable relationship or linkage between direct foreign investment and the scale of exports. On the other hand, indirect foreign investment which uses a resource-matching method and transfers only needed single components can hardly help our enterprises increase their overall competitiveness for exports in terms of their marketing, technology and domestic channels, and can only serve the single function of raising capital, replenishing domestic savings or filling foreign exchange gaps.

For foreign investment policy to serve the objective of an export-oriented foreign trade policy, foreign capital should be used in ways which are compatible with foreign exchange earning exports; various foreign investment policy measures should be used to attract and guide foreign investors to correctly utilize production factors of low costs and labor supply which are clearly in China's advantage, and to promote these variables in enterprise production function to achieve maximum effect in terms of production quantity and exports. If China's foreign investment policy seeks to attract foreign capital only on the basis that China offers relatively advantageous conditions, the result will not only prevent China from realizing maximum trade benefits but also easily lead to national income loss and, through theoretical projections of the nonfarm production cycle, to a quagmire in which any long term improvements of trade conditions will be difficult to achieve and China prevented from competing and winning in the evolving system of international division of labor by rationalizing and upgrading our export enterprise structure. Therefore, mindful of China's foreign trade policy goals within the international arena, China's foreign investment policy must vigorously and quickly upgrade the export product structure of foreign-funded enterprises, conclude the third stage of the nonfarm production cycle, encourage foreign investment in the second stage of this cycle and, through enterprises with competitive export advantage, quickly take a commanding lead in the first stage of a new nonfarm production cycle by seizing the rare opportunity early on where the supply-demand price elasticity has not yet escalated, improve the export trading conditions faced by China's foreign-funded enterprises, and through an open economy model vigorously strive to open up abroad new directions in the nonfarm production cycle which match the "win through quality" export strategy now being pursued and implemented by China. Otherwise, in the competitive export production of foreign-funded enterprises, the foreign investors' ability to accumulate and retain earnings will be hamstrung by the current export structure. Furthermore, since China's naturally endowed production advantages are in flux and evolving, and once the labor cost advantage becomes less decisive or even disappears entirely, the simple processing-for-export model of foreign-funded enterprises will face a dim future. At present, many foreign investors already consider China's labor intensive model to be less attractive and therefore are giving up their plans to invest further in China.

2. Foreign investment policy and the objective of an import-substitution foreign trade policy

Import substitution involves confining foreign capital utilization and the market it generates to within the host country, even though the host country's economic conditions are backward and the competitive standards set by the foreign-funded enterprises cannot match those in the investors' home countries. Because monopolistic enterprises control the supply-demand curve in making decisions regarding production quantity, they can lead to improper allocation of resources; China's utilization of foreign capital in practice also clearly demonstrates that without adequate competition, the managerial factor brought in by foreign investors is minimally utilized in the host country. A typical factual example which provides a basis for observation and judgment is the fact that China, through joint domestic and foreign funding, has established several automobile production lines, but their scale of production is considerably below not only that in the investors' home country but also the competitive standard recognized internationally. Aside from the joint funding of research and development costs and their separate usage, it hardly reflects the quality of an effective economic model. It can conclusively be stated that in the early stages of China's import substitution policy, the growth of foreign-funded enterprises in this area was mainly due to increased inputs of single component of labor or capital, and productivity based on a composite of important managerial and economic factors was still very low. In many localities, the so-called foreign investment was in reality investment of personal savings, not corporate investment, to say nothing of investment of the surplus managerial factor. Because China as host country has a vast potential market, unless the foreign investment was clearly irrational, any foreign investment in short-term joint venture projects invariably involved no risk at all.

To prevent any long-term imbalance in international balance of payments, foreign investors should not be allowed to earn an excessively high rate of investment return; at the same time, because of relatively low competitive level of enterprises in the import substitution area, and the fact that re-establishing these enterprises is uneconomical, the managerial factor introduced by multinational companies is only partly effective and the economy of scale only partially realized. Therefore, in attracting foreign capital to the import substitution area, China's reliance on investment in single, separate production in effect is using indirect foreign investment to fill the technological gaps created by the process of upgrading China's enterprise structure. In the 1980s, China initially approved bringing in some 2,000 technology projects which vigorously supported the development of China's electronic industry, basically satisfied the consumption demands of our domestic market and enabled our enterprises to begin developing the ability to penetrate the world market.

In calling for more indirect investment in the import substitution area or for using foreign capital in stages, it does not mean that foreign-funded enterprises are excluded. In this regard, we should take note of two kinds of situations: First, promoting basic reform in state-owned enterprises by bringing in new management

factors through direct foreign investment is essentially going outside of the reform sphere and does not relate to any foreign trade and investment policies; second, to develop technologically advanced enterprises which will maintain a leading edge for a relatively long period of time, we should allow direct foreign investment in those domestic enterprises which have developed the basic competitive capacity, especially those producing high-grade capital goods in the import substitution area.

II. Contradiction in Carrying Out Coordination of Foreign Trade and Foreign Investment Policies and Possible Remedies

The boom of foreign investments in China has revealed numerous contradictions between China's foreign trade and foreign investment policies, and maintaining appropriate coordination of the two policy goals is an urgent task if continued healthy development of foreign-funded enterprises is to be assured.

1. Based on foreign trade objectives, implement structural adjustment and quantitative control in foreign capital utilization

In terms of China's current utilization of foreign capital, aside from controlling indirect foreign investment by monitoring debt repayments and rates of interest payment, which reflect the extent to which exports are being restrained by foreign debt regulations making the latter serve the implementation of foreign trade policy objectives, the types of structural adjustment in foreign investment utilization and the scope of direct foreign investment are still not well coordinated within the foreign trade policy area. Last year, direct foreign investment in China for the first time exceeded China's borrowing from abroad. But what is a cause of concern is that, lacking any clear-cut foreign trade policy guidance, the percentage of foreign-funded enterprises oriented toward exports and their rate of exports are both very low. Among jointly-funded enterprises, these two indices have long been kept at around 20 percent; the fact that only 5-8 percent of the high-tech enterprises produce foreign exchange earning exports or products which can reasonably be used for import substitution and the above-mentioned percentage indicate that a total of 70-80 percent of such enterprises utilize only run-of-the-mill technology and produce for domestic sales and consumption; even in Shanghai which sets the national standard in this area, the sum of the two indices this year is only 53 percent. As a result, the foreign exchange transactions of foreign-funded enterprises have exerted a negative effect on China's international balance of payment, and reduced the efficacy of using foreign trade policy to encourage exports. Therefore, we should clearly spell out our foreign trade policy objectives on import substitution and foreign exchange earning exports, and positively encourage direct foreign investment in the foreign exchange earning exports area; in the import substitution area, we should attract direct foreign investment to those high-tech enterprises whose products can clearly substitute for imports of technology and can also effectively be used to disseminate the technology to all domestic enterprises through their internal structural changes. In the broad import substitution area, however, we should as appropriate attract

indirect foreign investment to activities which bear on import substitution, and promote multifaceted indirect investment by taking advantage of opportunities made possible by the current trend of increased credit use in international capital transactions. We should, therefore, develop a major structure in which more and more indirect foreign investment will be drawn to the import substitution area, and more and more direct foreign investment to the foreign exchange earning exports area.

2. Using foreign trade policy measures, sweep away restrictions on foreign capital transactions in the import substitution and foreign exchange earning exports areas

Using different foreign trade policy objectives to determine methods of foreign capital utilization, because of numerous factors, would result in superficial implementation. In reality, China has already extended numerous preferential treatments to foreign-funded enterprises, with China herself enduring the pain of reducing prices to the lowest possible point (such as land prices) to encourage foreign investors to establish high-tech and exports producing enterprises. Despite the restriction on the enterprise financial budget, the government has allowed foreign-funded enterprises to maintain foreign exchange receipts and expenditures accounts and use various channels including the foreign exchange swap centers to remit foreign exchange earnings and consolidate compensations for purchasing domestic products for exports. The restrictions on enterprise foreign exchange budgets are clearly being relaxed, which in the longer term will lead to exports falling below the contractually specified export ratios. In the past, we have relied on the enterprises themselves to find their own ways to maintain foreign exchange equilibrium, and we have successfully encouraged foreign-funded enterprises, particularly the sole-source investment enterprises, to maintain a rather high export ratio in direct contrast with other developing countries' experiences with sole-source foreign investments. Because of this, we should use our foreign trade policy objectives to lead and guide investment decisions on production quantity made by foreign-funded enterprises.

First, we should change the policy of granting preferential treatments based on locality, enterprise and even the type of enterprise to a policy based on end-results and, guided by our foreign trade policy objectives, extend preferential treatments to high-tech enterprises and the foreign exchange earning exports area. At present, an important adjustment in our foreign investment policy is to change the focus from locality to enterprise in foreign capital utilization, but in practice implementation is still held up by the static protocol of policy. In this respect, we have overlooked one basic fact, namely the opportunities for promoting economic growth and developing export potentials exist not only in certain localities or enterprises, but in various types of enterprises in the broad context of the economy. An end-result oriented policy should give equal rewards and encouragements to all localities, departments and enterprises operating within the scope of this policy so that they will strive for incremental gains consistent with the policy's macroeconomic intent. In giving preferential

treatments to foreign investment based on an end-result oriented foreign trade policy, we should continue to incrementally reward any transactions which promote foreign exchange earning exports or which increase the technological content of import substitution enterprises. In using this concept to guide the reform of China's foreign capital taxation system, we should request that all localities or departments change from giving preferential treatment on income taxes and adopt a new system of reducing or rebating indirect taxes and customs duties in the export-import cycle in conformance with customary international practices to arrive at an indirect tax rate which effectively encourages exports. In the past, we have made a priori determinations of the export ratio for exporting enterprises and the technological standard for import substitution enterprises, and these in different degrees reflected the directions of our foreign trade policy, but this system was ultimately based on an objective of encouraging particular enterprises rather than an objective of giving even-handed encouragement to increasing the quantitative flow of foreign trade. This demonstrates that our foreign trade policy was incomplete and lacking in thoroughness. For example, in 1988 among China's foreign-funded enterprises, the proportion of export-oriented enterprises and their export ratio were almost identical, at 20.92 percent and 20.75 percent respectively. This means that non-exporting enterprises were not given any preferential treatments such as the reducing or waiving of income taxes enjoyed by export-producing enterprises, and they could not achieve the goal of maximizing the export potentials of foreign-funded enterprises.

Second, change the past policy of keeping trading activities of foreign-funded enterprises separate and apart from those of domestic enterprises, and implement the foreign trade policy goal of encouraging and assisting foreign investors to develop strategic export enterprises which enjoy competitive advantage internationally. An important external factor in the mushrooming growth of foreign-funded enterprises in China is traceable to the pressures of currency devaluation and rising costs in developed countries and newly industrialized Asian countries that force enterprises there which have lost their production advantages to relocate abroad. Whether China can seize this historic opportunity and carry out its externally oriented economic development policy, not only in terms of the extent to which foreign investors are attracted to use China's labor resource advantage to lower their production costs, but more importantly to see, with foreign investment in labor-intensive enterprises and their exports replacing exports of resource-intensive enterprises, whether foreign investment can quickly enter into the stage of developing competitive strategic exports, and whether products of foreign-funded enterprises produced with benefits of all the advantageous factors will make a good start in a new cycle unhampered by low-grade products which will avoid pitfalls in the nonfarm production cycle. Last year, the export ratio of China's foreign-funded enterprises rose to 20.5 percent, much higher than their industrial production value of 8.5 percent, and judging by their export ratio and their share of the total production value

in terms of international competitiveness, China's foreign-funded enterprises scored 41.46 percent on a comparative index of international competitiveness, which is better than even the highest standard reached in the 1980s by the Republic of Korea. What is astonishing to us is that examining the competitiveness index in terms of imports, the 1992 index is a negative value of minus 20.64 percent, and even after eliminating foreign investment in import facilities, the index still shows a negative number. Going one step further in the analysis, because we treat foreign investment in our enterprises as an independent externally oriented activity, and strictly insist that these enterprises maintain balanced foreign exchange accounts, this has forced foreign investors to resort to utilizing the processing-for-export production method on a large scale, resulting in a 1992 ratio of as high as 88.8 percent. Since China relies on the low labor cost advantage in its exports, this production method which adds minimal value and requires only a limited processing cycle makes it difficult for China to attract foreign investment and to gain maximum export benefits. Therefore, we should follow a strategic foreign trade policy and attract or match up foreign investors through a series of developmental steps to establish export processing areas, export production bases, special plants and factories, and bring foreign-funded enterprises on to the track of developing China's strategic foreign trade.

3. Correct the operations of foreign-funded enterprises in accordance with foreign trade policy objectives

First, controlling transfer pricing control. China's foreign-funded enterprise rely on transfer pricing which leads to shocking and painful foreign exchange losses and national income outflows. Transfer pricing in essence is the result of market internal operations, and eliminating transfer pricing will have a negative effect on the host country; we need to externalize our domestic market and let enterprises follow the principle of basing transfer pricing on market price and not on cost of capital in production. Therefore, through a system of open competitive bidding (and foreign partners in any enterprise may be given limited preferential treatment and priority in bidding) and pricing based on customs estimates which approximate open market pricing to promote enterprises in the import cycle, we can help strengthen the supply-demand pricing elasticity of open market and control the tendency of quoting high prices for imports and holding down prices for exports. In this way, the customs authorities using their own information network can supervise and control any unreasonable export transfer prices quoted by foreign-funded enterprises by comparing these prices with those of China's specialized companies and industrial-commercial firms; in the import cycle, a system of open competitive bidding can in varying degrees spell out the open market conditions, control foreign businesses from cutting into the capital base and profits of jointly-funded enterprises through reckless tactics of investment in infrastructure facilities, and help establish a strategic, alliance type of cooperative enterprises to gain sale outlets and channels and speed up product developments. As for the structural advantages of multinational companies or allied enterprises in lowering their transactional costs in the domestic markets, these would not

be diminished as a result. This is because that permission given to any reasonable internal transfer pricing is limited to enterprises determined by research as having difficulties to adopt to market conditions or to enterprises which nevertheless incur relatively high trading costs after searching for reasonable pricing in an open market; these technical factors affecting transfer pricing also apply to any new or original products or projects, i.e. even though open market exposure will not lead to unnecessary increase in transaction costs, but precisely because of filtering and screening by the open market, they are found to be worthy of support because they are well suited to trading in the domestic market. In this way, the supervision and control of transfer pricing will play an important role in terms of our foreign trade policy objectives.

Second, estimating the scale of exports. Foreign capital utilized in foreign-funded enterprises and exports processing enterprises is an effective way to make reasonable use of the domestic market, lower transaction costs and search for the most advantageous structure among the wide range of international productive enterprises. Nevertheless, it is difficult to prevent or control foreign-funded enterprises' exports and their subsequent re-exports from being included in other countries' foreign trade accounts and estimates within the scope of international trading activities. We should consult the practices in other countries—particularly regarding regulations governing the country of origin for imports, the percentage of added value, the percentage of native resources used, and what proofs of place of production are required for different products of the exporting countries—and accordingly add the exports to the quota of concerned countries trading with China, and thereby bring foreign-funded enterprises and export processing enterprises within the scope and control of China's foreign trade policy.

LABOR

Reversion of Migrating Rural Labor

94CE0362A Beijing JINGJI RIBAO
in Chinese 22 Feb 94 p 1

[Two-part article by Tai Dewen (3141 1795 2429), secretary of the Fuyang Prefecture CPC Committee, and Gao Lu (7559 6424), staff reporter: "Speaking of the Reverse Flow in Season of Rising 'Tide'—Dialogue on Reverse Flow Phenomenon in 'Tide of Rural Labor' (Part One)"]

[Text] Editor's note: The information conveyed in this dialogue is very valuable. On the one hand, in the "tide of rural labor" one wave overtopped another wave, but through correct "dredging" the flow became orderly; on the other hand, a "reversion" phenomenon also appeared. Of course, it is normal for a tide to rise and fall, to go out and come back in, but as the "phenomenon of the regression of an adverse tide" it has a fairly deep connotation. The peasants who went outside their native places widened their horizons, changed their ideas, increased their knowledge, and learned skills. When they returned to their native places they became the backbone in developing the economy. This point can help people to recognize the positive aspect of the "tide of rural

labor." Furthermore, this information proves that the base for the broad masses of peasants to become well-off is not the city but rather the rural areas. [end editor's note]

Tai: Tai Dewen (secretary of the Fuyang Prefecture CPC Committee) Gao: Gao Lu (staff reporter)

Gao: In recent years the "tide of rural labor" has become a big part of the landscape of China's economic and social life. The various issues initiated by this tide have drawn widespread attention in all circles of society. Your report on the investigation and study of the question of the transfer of the surplus labor force in the rural areas of Fuyang prefecture made a deep impression on us.

Tai: Making an investigation in this aspect was necessitated by reality and work. Fuyang Prefecture is a large-population region with 1 percent of China's population and a large region for traditional agriculture. Following the deepening of rural reform, the development of the market economy, and the raising of the degree of agricultural mechanization, the rural surplus labor force has become larger and larger. There are now about 3 million members of the rural surplus labor force in Fuyang Prefecture. This a superiority of our prefecture's economic development. In 1992 our prefecture exported 1 million members of the labor force. We cannot but consider the question of "where the million-strong army is heading."

Gao: Of the two investigation reports you provided, I feel that the investigation of the phenomenon of "reverse flow" in the "tide of rural labor" was most enlightening.

Tai: In the process of investigating the question of the transfer of rural surplus labor, we discovered that over the past two years a phenomenon of the "regression of an adverse tide" has appeared in exported labor. Workers, making use of the skills they learned on the outside, have returned to their native places and set up and run a large number of township-town enterprises.

Gao: In what numbers and on what scale?

Tai: According to the initial investigation, there are in the prefecture more than 700 enterprises of this type, and they have a certain influence and are on a considerable scale; some of them have become the backbone of township-town enterprises on the two levels of county and township. The township-town enterprises set up and run by workers who were formerly exported and who have returned to their native places are becoming a new "growing point" in our prefecture's development of township-town enterprises.

Gao: According to our investigations, in the provinces of Anhui, Sichuan, Hubei, and Hebei, in some prefectures in which there fairly many rural workers who were in the outward flow, there has appeared in the past two years this phenomenon of the "regression of an adverse tide." Of the more than 2,000 peasants of Jinniu Town in Dazhi County, Hubei Province who engaged in trade or worked outside the town, more than 700 of them have returned to the town. It's too bad that the meaning of this phenomenon of "regression" has not yet drawn sufficient attention from the people.

Tai: Looking at it from the angle of the future, we see that the development and use of this returning labor force is more important than the current export of labor.

Returnees: Putting Their Ability to Good Use in the Family

Gao: In your investigation of typical examples, were any patterns discovered?

Tai: In our investigation of typical examples, we selected throughout the prefecture 50 persons who were part of the "regression of an adverse tide" and who set up and are running township-town enterprises. The results of the investigation were: 1) by age, 23 percent were in the 20-30 age bracket, 71 percent were in the 30-40 age bracket, and 6 percent were in the over 40 age bracket; 2) by education, 35 percent had a senior middle school education, 46 percent had a junior middle school education, 10 percent had an elementary school education, and 9 percent were illiterate or semiliterate; 3) by time worked outside their native places, in general this was five to 10 years; and 4) by skill level, these people have basically mastered and even become proficient in one or more skills, about 60 percent of them when outside being the skilled backbone elements of the units they worked in, and about 20 percent of them when outside being both skilled backbone elements and middle-level managerial personnel.

Gao: That is to say, among these pioneers who "regressed" to their native places, the great majority are young and middle-aged (more than 90 percent being in the 20-40 age bracket), their educational level is fairly high (more than 80 percent having a junior middle school or senior middle school education), their time outside was fairly long, and they have mastered skills.

Tai: Shui Xinyou [3055 2450 0645], a peasant from Aiting Town in Linquan County, in 1987 went to work in a leather shoe factory in Wujiang County, Jiangsu Province. By his practice there he gained consummate skill, and the uppers and soles of the shoes that he stripped could bear a strength of as much as 18 kilograms, far exceeding the ministry-issued standard; they were given a good appraisal at a national comparison and appraisal meeting. After staying outside his native place for six or seven years, he returned in 1993 and set up the Aiting Leather Shoe Factory, after which the supply of its products could not meet the demand.

Gao: There are surely not a few such examples. In starting an undertaking, for these "regressors" it is indispensable to have an eye and head for business.

Tai: For the most part, they possess a keen insight into markets, an insight that was nurtured when they were working on the outside. For the most part, the rural labor of our prefecture that flowed outside went to the coastal regions, where the market economy is fairly developed. From the time that they began to leave their families, these people placed themselves in the crests and troughs of the waves of the market economy.

Gao: In an environment full of competition and risk, it is fairly easy to learn by experience what the role of market mechanisms is, thereby forming a consciousness of competition and an insight into markets.

Tai: A peasant from Ningxiao Village, Wangdian Town, Fuyang City in 1989 went to Dongyuan [a county in Guangdong Province] to work in a furniture factory. When he returned to his native place he discovered through a market survey that the factory's products, in his province

and neighboring provinces, had a good market, so he set up his own furniture factory. The supply of its products could not meet the demand for them. After being in business for over nine months, the factory achieved an output value of more than 520,000 yuan and obtained a net profit of 120,000 yuan. Niu Wei [3662 0251], a peasant from Guantang town, Haozhou city, went to the Northeast to work at an agrotechnical popularization center, where he learned the skill of duplicating and mixing agricultural chemicals. When he learned that his native place lacked this kind of product, he became aware that there was a big market for it that was worth developing. He returned to his native place and set up a chemical plant that produced many new agricultural chemical products. The plant achieved an annual output value of 740,000 yuan and a profits tax of 60,000 yuan.

Gao: The "regressors" who start undertakings in their native places are bound to form economic radiating circles with them as the core, thereby spurring the development of the township-town enterprises there and the entire economy there, raising the income of peasants there, and spurring the adjustment of the rural industrial structure there.

Tai: These radiating radii are at the least one or several villages and at the most a dozen kilometers. Zhang Dezhi [1728 1795 5347], a peasant from Taihe County, in 1987 returned to his native place and set up a silk mill, which now is a product base of considerable size. More than 1,000 peasants in the county engage in sales promotion work for the mill's products, and the sales promotion contingent has spread to several provinces and autonomous regions. These peasant sales-promoters have an annual net income of at the least between 3,000 and 4,000 yuan and at the most over 10,000 yuan. Examples of this kind are innumerable. There is now gradually being formed a new pattern in the village and district economy that has the "regressor" pioneers at its core and that breaks through regional boundaries.

Reasons for Return: Unlimited Analysis

Gao: Of the peasants who went outside their native places to engage in trade or work and who then "regressed" to their native places and started undertakings, some either returned to the "yellow earth," which is a follow-up phenomenon that is bound to accompany the "tide of rural labor." What is needed is to investigate and study many questions. First of all, the exciting cause of their reverse flow or "regression" must be made clear, and then action can be adroitly guided according to circumstances.

Tai: In our investigation we discovered that the exciting cause of the "regression" was many-sided. Thinking of one's parents with affection, being reluctant to be away from home, and loving one's native place are one of the subjective reasons. Deng Min [6772 2404], a peasant from Gongdian Town, Lixing County, and more than 10 other young women from neighboring villages together went to Wenling in Zhejiang Province to work, but because their feelings of affection for their parents became stronger each passing day, one by one they returned home. Unwilling to return home and still be poor, Deng Min returned to her native place in 1993 and facilitated the setting up of a handicraft knitwear mill as a joint venture between the local government and Zhejiang Province, with herself as mill director. The mill has now achieved an output value of many ten thousands of yuan and a profit tax of over 80,000 yuan. Zhang Qi [1728

3825] and Zhang Fangli [1728 7685 0448], peasant sisters from Yangchao Town, Yungshang Province, went to Changshu County in Jiangsu Province to work at knitting gloves. Their incomes were sizable, but they also thought of their parents with affection, so they returned home and, raising money by all possible means, led their seven sisters to set up a household glove factory. In the bodies of Chinese peasants are imbedded strong genes for feelings for their relationships and for feelings for their native land. "Every happy festival time I double my thoughts of affection for my parents," "I feel like going back to my native place, just as the stranger bird thinks of his native forest," "Lifting my head I gaze at the bright moon; lowering my head I long for my native place"—These lines of poetry reveal this set of circumstances.

Gao: When encountering setbacks or rough spots in human relationships, work, hardships, or other aspects, the language barrier and the difference in living habits will, because of the inhibition of the spirit, intensify the thoughts of affection for one's parents and the love of one's home. This is man's natural reaction or his reaction under certain circumstances.

Tai: Next, the raising of the level of demand is also one of the exciting causes of this "regression." Following their increase in income, for those who work outside their native place the pressure of the requirement for survival lessens day by day, and the pressure of safety requirement, emotional requirement, social requirement, and requirement for realization of self-worth becomes stronger day by day. They become dissatisfied with the lifestyle of drifting all over the country; and they hope to get greater respect, hope to get for their worth fuller realization and social recognition. Returning home and starting an undertaking become the optimum choice for satisfying these requirements.

AGRICULTURE

Net Farmer Income Clarified

94CE0398C Changchun JILIN RIBAO
in Chinese 23 Feb 94 p 3

[Article by Yang Molin (2799 1075 2651): "A Correct Understanding and Application of the Statistical Data 'Net Farmer Income'"]

[Text] "Net farmer income" is an important indicator for the degree of prosperity of the peasants and for the degree of development in the rural economy. It is an important basis for an accurate analysis of rural affairs and for the determination of strategy and economic policy in rural development. How are we then to accurately understand and effectively apply the statistical data "net farmer income"? The following points will have to be paid attention to and to be fully mastered:

First, sampling network points have representative character but are not the same as having sample households all over the area. Investigation by sampling is a scientific investigative method done by first subjecting only one portion of all the units within a whole to investigation, and to infer therefrom the properties of the whole. The selection of the 20 sample counties and 1,600 sample households of Jilin Province was done as required in the uniform scheme of the State Statistical Bureau. It used the average per capita

income of the preceding three years, lined it up upward and downward, compiled it into a framework, and adopted the method of random starting points and symmetric equidistances. Scientific tests have shown that this set of network points enables a better than 95.45 percent control, and that error in per capita income is limited to below 3 percent. Its representative character is not adversely affected by the way the samples are distributed. Therefore, when using "net farmer income" in analyzing problems, one may have confidence in the representative character of the "net farmer income" gained from the sampling carried out by the [official] statistical agencies.

Second, peasant income is not the same as cash income. According to the regulations of the State Statistical Bureau, "net farmer income" comprises two components: all cash income of the peasant household (deducting what has to be deducted) and all agricultural and sideline products produced and consumed by the peasant himself, converted into money. For instance, the per capita income of a peasant in Jilin Province in 1992 was 807.41 yuan, of which 411.84 yuan was cash income—making up 51 percent of his net income—while the remaining 395.57 yuan were material income converted into money. Therefore, when using "net farmer income" in the analysis of certain problems, it is necessary to distinguish between cash income and material income converted to money, and to then deal with the proportions of each part, so as to gain accurate control of the level of commodity production and the purchasing power of the peasants.

Third, the net farmer income level is not the same as actual degree of prosperity. Net income of peasants is an important indicator for the evaluation of the peasants' prosperity, but it is not the sole indicator. The peasant's income is the comprehensive result of the peasant household's income from productive operations and from nonproduction-related income, while poverty or prosperity of the peasant household depends on many historically related factors. Therefore, when using "net farmer income" in the analysis of poverty and prosperity of peasant households, it is necessary to simultaneously include in the analysis many other conditions, such as financial claims, financial obligations, ready cash, deposits in banks and credit cooperatives, and production-related or nonproduction-related fixed assets.

Fourth, the average level of net farmer income is not the same as equality of levels. For instance, in 1992, a peasant's average net income in Jilin Province was 807.41 yuan, which shows, in the overall view, that the living standard of the broad masses of peasants in Jilin Province has gone up from subsistence level to a comfortably well-off level, but that does not mean that every peasant household has reached that level. There have been almost 30 percent with incomes of over 1,000 yuan, and 11 percent under the poverty level (at per capita 400 yuan). Therefore, when using "net farmer income" in analyzing the overall level of the production and living conditions of peasant households, attention must be paid to the imbalance among the various units under the cover of the average figure. Attention must also be paid to the fact that basic data control be established as regards the differentials among the units, so that guidance is given in a classified way, and that common prosperity for all be promoted in order to achieve it as early as possible.

Fifth, the cash proportion in the peasant's net income is not the same as actual buying power. Purchasing power of the peasant (comprising purchases of means of production and means of livelihood) is indeed manifested in the cash portion of the peasant's net income, but not all cash income constitutes actual purchasing power. Some money is needed by the peasant to repay debts, some money is needed for other than commodity-related expenditure (for instance, for school and sundry expenses, travel expenses, etc.), some money is saved to be later used for other purposes, etc. Therefore, when using "net farmer income" for analyses in the problems of purchasing power, it is necessary to pierce the outer appearances and effect specific analyses. The question what proportion within the cash income constitutes actual purchasing power must be investigated and researched in a thoroughgoing and meticulous way, according to market situation and the consumption psychology of the peasant households.

Sixth, "net farmer income" is not the same as actual output value. If we compute "net farmer income" from products of animal husbandry, it would comprise income from actual sales and products produced but consumed by the peasant himself, converted to money. Livestock on hand and increases due to breeding, as long as not sold and also not consumed by own household, are all not counted as income of that year. However, in some localities when testing and verifying "net farmer income" large livestock on hand, life pigs and poultry are all converted to money and included in that year's income. That is a case of mixing up the computation of "income" with the computation of "output value." Therefore, when computing and verifying "net farmer income," it is absolutely necessary to first clarify the concepts of "income" and "output value," and to master the scope and methods of measuring each of these different factors, so as to accurately use these two indices.

Gansu Agricultural S&T Achievements

94CE0398B Lanzhou GANSU RIBAO
in Chinese 13 Feb 94 p 1

[Article: "By Closely Integrating Scientific and Technological Development, the [Gansu] Provincial Academy of Agricultural Sciences Accomplished New Achievements"]

[Excerpts] In 1993, the Provincial Academy of Agricultural Sciences set up 38 rural centers in ecologically different regions all over the province. Throughout the year, a scientific and technological personnel of 132 persons was hard at work here at the forefront of rural work, conducting various experiments, as also demonstrating and disseminating superior varieties, and helping in the training of technical personnel from among the peasants. The area over which such promotion has taken place this year has been 3.772 million mu, resulting in 194 million kg of additional grain, with an additional output value of 107.7 million yuan. In 1993, the dissemination, within the province and outside of the province, of several excellent varieties developed by the provincial agricultural academy has been greatly accelerated. Growing the "Long Ya No 7" type "huma" [5170 7802] flax was promoted over an area of 2.5 million mu; growing the new "long mi No 4" type of "mizi" [4745 1311] millet was promoted over an area of 1.22 million mu; spring wheat of the "long chun 8139" type was promoted over an

area of 1.17 million mu; and winter wheat of the "long jian 196" type was promoted over an area of 1.34 million mu. Altogether these promotions exceeded one million mu of varieties and resulted last year in an additional output value of 168 million yuan and an additional net income of 141 million yuan.

Similar achievements of increased production and increased income had been accomplished in contractual S&T projects undertaken by the provincial agricultural academy in 1993. The project "Demonstration of Techniques for High Yield Grain Production on 760,000 Mu of Arid Land in Eastern and Southern Gansu" has resulted, during its four years, in the additional grain production of 219 million kg of grain and a net income of 156 million yuan. The "Engineering Project for a Good Harvest of Grain, Edible Oil, Medicinal Herbs in High-Elevation, Shady, and Marshy Areas" had contracted for 2.07 million mu for the growing of grain, edible oil, and medicinal herbs and indeed achieved a bumper harvest over the whole area. In the area where the "Experimental Research of Vegetable Growing Techniques in High Efficiency, Energy Saving, Sunlit Green Houses" had been promoted, the average per mu yield was almost 5,000 kg, and the income over 10,000 yuan. The project "Promoting a Comprehensive Technique for the Improvement of the 'Mao Xing' Apricots in Eastern Gansu" had prepared a demonstration field of 610 mu to produce a superior variety, and this has led to the setting up of an orchard of 18,000 mu, which was one way of showing the people in the old liberated area to escape poverty and attain prosperity.

Provinces Report Early Rice Area

Hubei Rice Area

94CE0344X Beijing NONGMIN RIBAO
in Chinese 25 Mar 94 p 1

[Summary] In 1994 the early rice area in Hubei Province will be 10.5 million mu, an increase of more than 1 million mu over 1993. In 1994 the hybrid rice area will be 21 million mu, an increase of about 2 million mu over 1993.

Hunan Rice Area

94CE0344Y Beijing NONGMIN RIBAO
in Chinese 25 Mar 94 p 1

[Summary] In 1994 the early rice area in Hunan Province will be 24 million to 25 million mu.

Zhejiang Rice Area

94CE0344Z Beijing NONGMIN RIBAO
in Chinese 25 Mar 94 p 1

[Summary] In 1994 the planned early rice area in Zhejiang Province is 13 million mu, an increase of more than 1 million mu over 1993. Gross output of grain will reach 30 billion jin. Early rice accounts for 40 percent of grain output in Zhejiang, and 70 percent of procurement. The provincial government has stipulated that the procurement price for contract orders of early indica rice will be 42 yuan per 50 kilograms, plus an additional price of 3.74 yuan. If the state procurement price is lower than 42 yuan, Zhejiang will

maintain 42 yuan, if the state price is higher than 42 yuan, Zhejiang will implement the state price, the additional price will not change.

Jiangxi Rice Area

94CE0397A Beijing NONGMIN RIBAO
in Chinese 25 Mar 94 p 1

[Summary] The planned early rice area in Jiangxi Province is 18.5 million mu, of which the hybrid area will be 7.2 million mu, an increase of 1.6 million mu over 1993.

Hunan, Hubei Grain Marketing Reform Surveyed

94CE0316A Beijing ZHONGGUO NONGCUN JINGJI
[CHINA'S RURAL ECONOMY] in Chinese
No 2, 20 Feb 94 pp 45-48

[Article by Li Xirong (2621 1585 2837) and Dong Yiman (5516 0001 2581) of the Agricultural Economy Department of the State Planning Commission and Sun Meijun (1327 2734 0689) of the Agricultural Survey Team of the State Statistics Bureau: "Survey of Hunan, Hubei Grain Circulation System Reform"]

[Text] I. Background and Main Methods of Implementing Grain Reform

Hunan and Hubei, major Chinese grain producing provinces, have for a long time suffered the constraints of the former grain purchasing and selling system, causing the unreasonable situation of grain production and business shouldering heavier and heavier burdens. Governments at every level shouldering heavy financial subsidies burdens in being responsible for grain are responsible for shouldering grain burdens. Grain enterprises bearing the burden of debts in dealing in grains have even more grain burdens. Farmers bearing the burden of low efficiency also bear a burden from planting grain. If this vicious circle continues, the burdens will become heavier and heavier.

Grain reform is imperative and it is precisely the opportune time. First because the stable social, political, and economic situation throughout the nation provides a good general environment for grain reform. Second, because grain resources are ample. Both provinces' grain reserves are 10 billion jin or more. Third, because market prices for grain are steadily declining, essentially approaching the posted price, and the market price is even lower than the posted price. Fourth, because in recent years with economic development, the standard of living of urban residents has greatly improved and their tolerance has increased. According to a survey of the two provinces, in the last two years, expenses for grain consumption only make up about 5 percent of consumer cost of living expenses for urban residents. People from all quarters agree that now is an opportune time to conduct grain reform and the pace of grain reform should be increased.

In the grain reform plan implemented throughout Hunan Province and in some counties (cities) of Hubei Province, reform consists of the following main aspects:

- A. Grain purchases and sales and prices are opened up in all directions and under state macroeconomic control they mainly rely on the market adjustment of grain supply and demand. Since 1 January 1993, fixed grain purchases have been abolished in Hunan Province and the price is determined by the market. Most of the counties (cities) in

Hubei Province that have opened up grain also have abolished fixed purchases and because the grain department enters into intended fixed amount but no fixed price agricultural commercial contracts with agricultural households, the price is determined by the market. Agricultural taxes still are levied in kind by grain departments.

In grain sales, they have abolished the fixed quantity parity price supply system and have implemented a new method of supply guaranteed in accordance with market prices. At the same time, it has been ordered that various types of grain coupon, grain certificate, and residential grain inventory permit grain quotas no longer be circulated.

B. Abolishing parity price grain allocation. Hunan Province has come out with a regulation that after grain purchases and sales and prices are freed up, they will abolish the former provincial parity price system plan for allocating rice. The special state grain reserves, the State Council market adjusted grain, and the present state turnover grain and provincial reserve grain allocation plans will still be administered in accordance with state regulations. Counties (cities) in Hubei Province that have freed up grain also will abolish parity price grain submission tasking.

C. Abolishing the "three linkages" preferential policy. Hunan Province has stipulated the abolishment of the "three linkages" parity price materials supply for farmers and will allow the price to be determined by the market. Hanchuan County in Hubei Province has changed its "three linkages" parity price grain material supply to comprehensive price supply with the price determined by the county government. Grain advance purchase earnest money has been changed to production loans extended by county agricultural banks and credit associations. Shishou city has stipulated that they will abolish the "three linkages," but give preferential supply of fertilizer and diesel below the market price and above the parity price and low-interest loans to agricultural households that have signed agricultural-commercial grain purchasing contracts.

D. Implementing grain price subsidies for urban residents. After all localities have grain reform, they will implement grain price subsidies based on the principle of common assumption by the state, enterprises, and individuals. Generally, it will be the responsibility of the Ministry of Finance to allocate subsidies to the staff of administrative institutions and it will be the responsibility of enterprises themselves to resolve grain price subsidies for enterprise staffs, and subsidies will be allowed to be figured in their costs.

E. Freeing up operations and enlivening circulation. In every locality's grain reform plan it is explicitly proposed that they should conduct multi-channel operations and enliven circulation. Grain departments should convert operating mechanisms as quickly as possible and actively participate in market competition, establishing and performing the main channel functions in competition. Other state-run, collective, and individually-run enterprises, as well as individual farmers also can operate retail and wholesale grain businesses.

F. Establishing a grain risk adjustment fund system. Grain is a special commodity directly related to the national economy and the people's livelihood and the state should enhance macroeconomic controls. So, all localities have made the establishment of a grain risk adjustment fund an important component and measure of grain reform. Generally they have stipulated that on top of the Ministry of Finance grain subsidies, "three linkages" material parity-negotiated price differential funds, and advance purchase earnest money discounts allocated according to policy, in cities and counties, for such things as negotiated price operation tax reductions and exemptions and payment of service and administrative fees for "converting people from agriculture to non-agriculture," municipal and county grain bureaus will establish special administration and government controls for special use in curbing grain market prices in special years and supporting such things as structural adjustments in agriculture, resolving grain price subsidies for financial subsidy personnel, and dealing with the debt burden of grain departments.

G. Implementing a special preferential policy to support the conversion of grain enterprises. Hunan Province has clearly announced that after grain reform, grain enterprises will be responsible for their own profits and losses, but the wages of grain enterprise staffs will be totally guaranteed by the provincial finance department for three years and fees and interest on central special grain reserves, current state circulating grain, and provincial grain reserves also will be borne by the provincial finance department. At the same time, they have stipulated that grain enterprises and enterprises newly developed after conversion will be exempt from taxes for three years, except for taxes on monetary awards, and grain enterprise bank loans will continue the originally designated preferential interest rates.

II. Reflections Following the Grain Reform and Its Affect on the Economic Life of Society

A. Reflections Following Grain Reform

1. Urban residents' spirits are steady. In the last few years with economic development, the income of urban workers has clearly increased and residents' economic tolerance has constantly increased. Several residents reflect that grain is now plentiful, the market is flourishing, and grain prices are steadily declining. Rather good quality grain can be bought anywhere and any place for a suitable price, much better than in the past. But there also are quite a few of the tiny minority of workers seeking support who reflect that following grain reform, increased grain consumption cost output has lowered their standard of living.

2. Rural cadres and masses have mixed feelings. They believe that only since grain reform have farmers truly had autonomy in production and operations to plant whatever brings in money. But at the same time, they also feel that in the past when grain was tight the government stimulated sales. Now when grain sales are bad, they have abolished the fixed quota purchases. In this topsy turvy situation, in the end it is the farmers who suffer the losses and are hurt. Rural cadres generally reflect that since grains were opened up, planting,

reaping, and sales are no longer urged, but collecting collective submissions of retentions and redeeming loans are rather difficult. In the past cadres pursued the masses for grain. Now they pursue the masses for money. And a new change has taken place in the relationship between rural cadres and masses.

II. The Affect of Grain Reform on the Economy and the Life of Society

- A. It encourages changes in the way that government departments take responsibility for grains. They have gradually changed from mainly relying on planning and administrative methods in the past to mainly relying on market methods. In the past government departments took responsibility for grains. Everything from planting, purchasing, processing, storage, and sales was conducted according to the mandatory plan. Grain reform can encourage government departments to respect and apply economic laws and use market mechanisms to do a good job of managing production, purchases, and sales. Relevant departments also have paid attention to market surveys and research and gradually learned how to set up production and organize purchases and sales in accordance with market demands.
- B. It encourages farmers to adjust the structure of the industry. They have gradually changed from being mainly oriented to the demands of the plan in the past to being mainly oriented to market demands. The first thing is that following grain reform market mechanisms have begun to perform a function. Farmers one after the other are readjusting the mix of their crops based on changes in the market and are diversifying and are vigorously developing the production of high grade agricultural products. After Chenzhou city freed up grain prices, farmers conscientiously adjusted the make up of their planting, reducing the area planted in grain and expanding the area planted in cash crops; and reducing the area planted in early rice which is lacking in quality and expanding the area planted in middle and late rice and high grade rice. For the year, early rice was reduced by 100,000 *mu* and high grade rice was increased by 400,000 *mu* and cured tobacco was increased by 120,000 *mu*. Secondly, the internal structure of agriculture has been adjusted. As reflected in Hanchuan County, since the beginning of autumn, the county has stressed three major adjustments: adjusting the 25,000 *mu* of low lake fields to develop the aquatic products industry; adjusting the 6,000 *mu* of hilly country to develop tea, fruit, and wood; and setting aside 70,000 *mu* for grain, cotton, and pod vegetables. As income increased, it also caused the internal structure of agriculture to become ever more rational. The third thing is adjustment of rural industrial structure. According to a Hanchuan County survey of 80 rural households, before the price of grain was freed up, 202 people, 94.8 percent, engaged in agricultural labor and 11 people, 5.2 percent, engaged in secondary and tertiary industry. After grain prices were freed up, agricultural workers decreased to 169 people, 79.3 percent, and those engaged in other industries increased to 44 people, 20.7 percent.
- C. It encourages grain enterprises to convert their operating mechanisms. From simply grinding rice flour in the past, they have gradually converted to diversified operations

adapted to the market. After grain prices and operations were freed up, grain departments and enterprises very quickly shifted toward the market and accelerated the transformation of operating mechanisms and changes in operating methods. Presently, grain departments and enterprises at every level are paying close attention to changing course and changing their form. The first is streamlining the structure; the second is starting diversified operations and opening new methods of production; the third is doing a good job of serial development of grain products; and the fourth is increasing business network points and increasing market competitiveness. According to the reflections of the Shishou city grain bureau, since grain reform, the entire bureau has engaged in risk mortgaged contracts for the whole staff to guarantee returns. Of the bureau's thirty enterprises, in 1991 nine enterprises lost 7.03 million yuan. In 1992, after the grain reform, they made a profit of 1.095 million yuan and seven enterprises greatly reduced their losses. State-run grain enterprises have acquired new life and vitality and maintain a leading position in grain purchasing and sales.

- D. Since grain has been freed up, processing industries with grain as raw material have expanded their markets even more. It can be seen from the cities and counties that have freed up operations that freeing up grain prices and operations not only has not produced a major impact and a chain reaction on the market, but the operations of grain processing enterprises are even more flexible. Presently, grain processing enterprises are converting from large batch operations to small batch, from simple purchases and sales to integrated purchases, sales, and processing, and from mainly having commercial grain enterprises receive raw materials to mainly having the market receive raw materials. These small scale and highly flexible enterprises that can process and can diversify operations should indicate that freeing up grain prices has injected new vitality into these enterprises.

III. Major Problems Facing Grain Reform and Suggestions

Grain reform is a major reform that is strongly policy oriented and has broad involvement. In making the transition from the old to the new system there will necessarily be a series of understanding, system, and operational problems. Judging from the situation in Hunan and Hubei provinces, we believe that currently the most pronounced problems are mainly exhibited in the following respects:

The first is that since grain reform, quota purchases and the "three linkages" preferential policy have been abolished and this grain reform is being conducted in a grain buyers' market, grain prices are low, purchasing funds are short, grain sale difficulties are exacerbated, and farmers' income is reduced. Hanchuan County in Hubei Province reflects that in July of this year, after grain prices were freed up, the price for 50 kilograms of early rice dropped to 18-19 yuan and that for middle rice fluctuated between 20 and 21 yuan, averaging below the state fixed price. Although the market price of wheat was higher than the fixed purchasing price and farmers throughout the county could earn more than 780,000 yuan, income from early and middle rice was down by 6.18 million yuan. So, grain farmers' income was down 5.4 million yuan, a per capita reduction of 7-8 yuan, because

grain prices were freed up. According to this calculation, in predominantly grain producing regions, farmers' per capita income was reduced between 20 and 22 yuan because grain prices were freed up. The 1992 farmers' net per capita income throughout the province was preliminarily estimated at 663 yuan, a 6 percent increase over 1991, essentially restoring 1990 levels. But the cash income from grain sales was down by 13.3 yuan and grain planting experienced an extreme drop. It is reported that Hunan and Hubei provinces are prepared to reduce the area planted in grain by 5 million *mu* and 3 million *mu*, respectively. This will have a definite affect on future grain production.

The second thing is that grain departments have numerous financial debts, a great deal of old grain, and heavy burdens and enterprises have a number of difficulties converting. Several localities reflect that when grain enterprises currently bearing the "three major burdens" of numerous debts, a great deal of old grain, and a number of retiring people, go to the market, they lack competitiveness. In the past "the emperor's daughter did not worry about marriage." Not only were there few network points, but several grain stores, stations, and points were established in rather out of the way places and the infrastructure was backward. Grain departments in every locality are striving to come to grips with developing diversified operations as an important measure for converting enterprise operating mechanisms, but it is generally felt that they lack experience, lack skill, lack qualified people, and lack funds, and have numerous difficulties.

The third thing is that in such respects as ideological concepts, business awareness, and understanding of science and technology, we still are far from meeting the requirements for developing a post-grain reform market economy. Several farmers reflect that "in the last few years, when we had no choice we planted grain, but when we planted grain, we also had no way, we could not sell it off. After grain reform, production was even more difficult. They told us that we were allowed to seek our own markets and no longer to seek the mayor. But where do we farmers go to find a market?"

The fourth thing is that the grain market system is not fully developed and circulation channels are not open. The development of such aspects of the infrastructure as both regional and national wholesale grain markets, adjustment methods, and land and water transportation are very unsuited to what is required to reform the grain circulation system.

These issues must elicit a great deal of attention and we must adopt feasible and effective measures and solutions, because how these issues are resolved not only is directly related to whether grain reform can be smoothly conducted in the two provinces, but also will have a major affect on the national grain situation. So, we propose the following suggestions:

A. Direct farmers, based on the fundamental stability of overall grain production, to make appropriate adjustments in the product mix and the make up of cultivation. From the overall perspective of China's current grain situation, overall supply and overall demand are essentially balanced with a slight surplus. But there is a problem with the product mix. There is mainly excessive paddy and insufficient high grade rice. But we also must notice that the level of China's current grain production still is controlled by nature. Overall grain supply capabilities still are not strong and per capita levels are not high.

Strictly speaking, China's grain problem still has not been solved. After increases in consumption levels, especially rural consumption levels, and gradual adjustments in grain varieties and production structure, the overall balance is gradually becoming tight. So, after grain reform, we must adopt measures to ensure the basic stability of grain production and guard against major slippage. We now must adopt a policy of "developing production, adjusting structure, guiding consumption, and opening markets," and actively organize and direct the broad masses of farmers to arrange production based on changing market demands and ensuring grain stability and strive to develop high-production, high-quality, high-return grain varieties suitable to increasing beans, small mixed grains, and other famous high-quality varieties with a foreign demand, appropriately adjusting the make up of cultivation and improving economy returns.

- B. Pay close attention to solving the financial debt problem. We should thoroughly and completely clear up current debts and distinguish the funds owed, and then handle them differently. Those owed funds that are policy, the Ministry of Finance should help to resolve. If they cannot be resolved for a while, we should stop the interest, make them interest-free debts and not take additional interest or penalty interest. For the portion that should have been subsidized by the locality and was not subsidized, the local treasury is responsible for allocating adequate subsidy. Debts that are enterprise business losses should be absorbed by the enterprises themselves. At the same time, a financial listing should be made of historical policy debts and newly added debts and they should have special administration, distinguished from regular enterprise business.
- C. Appropriately resolve the issue of old grain. A significant portion of grain currently stored by several localities is old grain and it urgently needs to be properly handled. As reflected by Hubei Province, about 4 billion kilograms, approximately half, of the grain currently stored is very hard to sell early long-grained, nonglutinous rice. Of that, a considerable portion has been there for three years or more, some even more than five years, and is inedible. So, we propose permitting early long-grained, nonglutinous rice that has been in place more than three years to be used to process feed or be sold on the market at the price that it can currently be sold. The differential between the cost of this grain and the actual selling price would be shared by the central government, local government, and enterprises.
- D. Enhance development of the market system and open circulation channels.
 - 1. We should adopt measures helpful to accelerating the development of rudimentary grain markets in grain producing areas, while selectively doing a good job of establishing regional wholesale grain markets in regions that mainly produce grain or have rather good conditions.
 - 2. Guide the farmers to enter the circulation sphere. We should actively organize farmers, rural cooperative economic organizations, special transportation and sales collectives, and individuals to enter the market

and directly engage in grain trading. To reduce the current unchecked and arbitrary farmer production and business activity, we should actively develop combined serial production, supply and sales grain production and business voluntarily participated in by the farmers.

3. We should improve methods of grain allocation and transfer and do a good job of coordinating relations between producing areas and sales areas. For the grain required by sales areas, we can adopt such methods as contract purchases and sales and purchasing and marketing agents, or have production organized and arranged by producing regions based on the varieties and volume required by sales regions, using sales to determine production and using economic forms to determine cooperative relations between producing regions and sales regions.
4. Enhance grain infrastructure and improve such basic conditions as storage and transportation.
- E. Improve social services and direct and assist farmers in adapting to the requirements of market economy development as quickly as possible. Reform of grain purchases, sales, and prices is being conducted in the current situation where it is difficult to sell grain and it also is difficult to sell cotton, oil, and sugar. So, a great many farmers feel at their wits ends. Some feel that they cannot look to the market and some feel that they cannot look accurately on the market. Some look to the market and lack skill. Some, although they have found markets and have a certain amount of skill, lack funds. All of these need to be further resolved by enhanced rural social services. In brief, since the freeing up of grains, we must not simply orient farmers to the market, but it is important to actively direct and assist them to take new steps to adapt to the development of the market economy as quickly as possible.

Agricultural Development 1996-2010

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[Article by Wang Weinong (3769 3634 6593), Zhou Haichun (0719 3189 2504), and Wu Xiaohua (0702 2556 5478), affiliated with the State Planning Commission's Economic Studies Taskforce: "China's Agricultural Development From 1996 to 2010"]

[Text] At the beginning of the 1990s, China's industrialization entered an intermediate stage, with our national economic growth order also experiencing corresponding changes, and industry becoming our national economic growth subject. But while this new stage of growth has brought a clear decline in the share of our agricultural output value and of agriculture in our national income, this certainly does not imply a weakening of the position and role of agriculture as the basis of our economic growth, the guarantee of our social stability, and the root of our national prosperity and might. Precisely the opposite, the arrival of China's intermediate industrialization stage means that agriculture not only continues to contribute to China's industry, but also will play an active role in the thorough conversion to marketization of China's economic reforms.

The fundamental standing of agriculture will grow more important, with agriculture undergoing this crucial stage and withstanding severe trials in the midst of these profound changes. During the crucial stage of the next 15 years (1996-2010), when our national economy is fully developing and making the transition to a market economy, our agricultural development state will directly affect our economic growth and system conversion. So when drawing up long-range development plans for our future national economy, we need to give key importance to agriculture.

I. The Features, Issues, and Conflicts Involved in Our Agricultural Development from 1996 to 2010

In order to understand the features of Chinese agriculture from 1996 to 2010, it will be necessary to grasp the development phases and trends of our whole national economy, as well as the relations between industrial and agricultural development, in this stage. Various studies show that China's national economic growth has entered this intermediate industrialization stage, which China's national economy will remain in from 1996 to 2010, and which will pose a series of new demands on our agricultural development.

Based on our studies of this intermediate industrialization stage, Chinese agriculture will show the following features in this stage:

1. Agricultural-product demand will grow faster. While the cries about the "problems in selling" agricultural products are now loud, this certainly does not mean that agricultural-product demand has reached its peak. The most crucial cause of these "selling difficulties" is that agricultural-product demand is in a structural-adjustment stage since the resolution of our food and clothing problem. As to the cities, this is mainly that the conflict between our farm-product supply and demand structures has resulted in inadequate direct demand for traditional farm products; and for rural areas, since the food and clothing problem was solved, the traditional low-value farm-product (mainly grain) demand-elasticity has declined quickly, while high-value farm products are in surplus. But the next 15 years of population growth, higher incomes, and particularly higher peasant incomes and changes in our urban-rural population structure, will bring a sharp growth in farm-product demand, which growth will be concentrated in animal foods, such as meat, eggs, milk, poultry, and aquatic products, as well as in areas, such as fruit, beverages, and processed foods. Our studies show that average incomes of 1,000-2,500 yuan (at 1990 prices) are the stage in which food-spending grows quickest, which fast spending-growth results mainly not from increased consumption, but rather from consumption of high-value foods. Projections for the next 15 years are that average Chinese incomes will be in this stage, meaning that demand in the next 15 years for high-value foods, such as meat, eggs, milk, and poultry, will be in a high-growth stage. As consumer demand for high-value foods higher on the food chain will be much larger for indirectly-consumed primary farm products than for directly consumed ones, this means that demand in the next 15 years will grow faster from primary farm products, such as grain, to high-value farm products.

2. Agricultural development will be faced with a severe protracted warfare with market economy. The next 15 years of this intermediate industrialization stage will bring a clear pickup in nonfarm-industry technological advance and structural conversion, sharply raising our resource-return rate and labor productivity. But on the other hand, as a traditional industry, agriculture will certainly not see a clear improvement in its rate of technological advances and higher labor productivity before its industrialization is completed as compared to its initial stage. Particularly, China is short on agricultural resources and has a weak agricultural base, in addition to our current agricultural-operating form of sharing cultivated land equally, which further sharpens our conflict of slow rates of agricultural technical advances and higher labor productivity. This means that agriculture's profit-making capability will unavoidably be clearly lower than that of nonfarm industry so that, under market-economy conditions, unless the state intervenes, the market-economy principle of profit maximization will drive a sharp loss of agricultural factors, on a scale highly likely to be far larger than at present, thus posing a severe protracted warfare to agricultural development.
3. Agricultural growth will quickly increase material-input demand. In *Comparative Studies of Industrialization and Economic Growth*, Chenery and others conducted a simulated analysis of input-output relations for countries in varying stages of industrialization. This shows that in the initial stage of industrialization, when per capita GNP is \$100-\$200 (in 1964 dollars), the ratio of agricultural material consumption to gross agricultural output is 16.4 percent, which ratio rises to 32.2 percent after per capita GNP reaches \$400, and again to 45.8 percent when GNP grows to \$1,500 in the latter stages of industrialization. A regression analysis that we conducted of GVAO [Growth Value of Agricultural Output] to agricultural material consumption in China for the 1979-1989 time series and for a cross-section of 30 provinces, municipalities, and autonomous regions in 1991, shows that the elasticity of China's GVAO to agricultural material input was up from 0.86 for 1979-1989 to 0.91 by 1991. This change was absolutely predictable. The arrival of the intermediate industrialization stage meant that our national economic development had reached such a stage, that our form of relying on simple development and utilization of natural resources to drive economic growth was over, and that our economic growth was increasingly dependant on increased input of reproducible resources which, reflected in agriculture, was naturally increased material input. The appearance of this feature requires industry to provide the material guarantees for agricultural growth on one hand, while requiring agricultural fund-input to be raised to a new level on the other.
4. Agricultural growth will tend to become more difficult. One of the key features of structural conversion in the intermediate industrialization stage is that while the

industrial-agricultural structural conversion proceeds, the structural conversion within industry clearly accelerates. This results in resources flowing on a larger scale toward nonfarm industry, making growth harder for agriculture—as the traditional industry—due to the impact of this large-scale loss of resources. In order to confirm this assessment, we analyzed agricultural growth in the industrialization process for the five countries of the United States, Britain, France, Germany, and Japan, as well as using World Bank data to conduct a cross-section analysis of industrialization and agricultural growth in over 60 countries. This showed that both the experiences of the first countries to industrialize and the practices of contemporary countries prove that in the intermediate industrialization stage, agriculture is characterized by a strong stagnation trend (See the research task entrusted by the State Planning Commission's Economic Studies Center to the State Planning Commission, Economic Studies Institute, Rural Economic Research Office: *Agricultural Growth Patterns in the Intermediate Industrialization Stage*). Due to the following factors, Chinese agriculture is highly likely to grow slowly or even stagnate in the intermediate industrialization stage, just as in the first countries to industrialize.

- A. Once in the intermediate stage, the quantity and quality of agricultural natural resources will tend to decrease to a greater extent, sharply exacerbating China's conflict of a severe shortage of agricultural resources.
- B. China launched its industrialization on a quite weak base. As China chose the route of very rapid industrialization slanted toward heavy industry, we have never been able to rectify the problem of our weak agricultural base. And with the arrival of our intermediate industrialization stage, our national economic focus will shift toward nonfarm industry, making this problem an even more glaring one.
- C. Our traditional agricultural-growth pattern of a large input of live labor to make up our resource-input shortage has reached the critical point, so that our abundant agricultural workforce not only is no longer an advantage, but even is threatening our agricultural growth.
- D. Our agricultural S&T and technology-dissemination system is also facing a stiff test from the market-economy tide.

The above analyzes China's agricultural-development possibilities for the next 15 years from a quantitative perspective. This section will set forth a simple quantitative description.

Based on China's real agricultural-development achievements since the founding of the PRC, particularly since 1978, combined with the model we chose to analyze our agricultural-development features and the key problems and conflicts we will face in the next 15 years, we have projected our key agricultural indexes for 1996-2010.

Table 1: GVAO Projections (At 1990 Prices) Unit: 100 Million Yuan

Year	Agriculture	Farming	Forestry	Livestock Raising	Sideline Industry	Fishery
1992	9,084.7	5,040.2	422.6	2,457.4	551.0	613.5
1992	8,452.5	4,684.4	384.0	2,326.4	530.5	509.6
2000	10,989.9	5,900.3	480.8	3,089.5	848.9	691.3
2010	14,349.9	7,359.2	611.6	4,227.0	1,224.0	987.0
Gr.a	3.34%	2.93%	2.85%	3.61%	6.05%	3.88%
Gr.b	2.70%	2.23%	2.44%	3.18%	3.73%	3.63%

Notes: Gr.a is the 1992-2000 rate of increase; Gr.b is the 2000-2010 rate of increase; The first 1992 line is calculated at 1992 prices, and the second 1992 line at 1990 prices.

Table 2: Agricultural Structure Projections (At 1990 Prices)

Year	Agriculture	Farming	Forestry	Livestock Raising	Sideline Industry	Fishery
1992	100%	55.48%	4.65%	27.05%	6.07%	6.75%
1992	100%	55.42%	4.54%	27.52%	6.28%	6.03%
2000	100%	53.69%	4.38%	28.11%	7.72%	6.29%
2010	100%	51.28%	4.26%	29.46%	8.53%	6.88%

Table 3: Staple Farm-Product Output Trend Projections; Unit: 10,000 Tons

Year	Grain	Cotton	Edible Oil	Poultry and Eggs	Pork	Beef and Mutton	Milk	Aquatic Products	Fruit
1992	44,266	450	1,641	1,019	2,635	305	563	1,557	2,440
2000	49,590	518	1,990	1,578	3,758	571	885	2,631	3,717
2010	57,633	611	2,518	2,313	5,205	943	1,324	4,126	5,401
Gr.a	1.43%	1.77%	2.44%	5.61%	4.54%	8.16%	5.8%	6.78%	5.40%
Gr.b	1.51%	1.66%	2.38%	3.89%	3.31%	5.14%	4.1%	4.60%	3.81%

This shows that our GVAO will reach 1.1 trillion yuan by the year 2000, for an average increase of 3.34 percent a year, and 1.5 trillion yuan by 2010, for an average increase of 2.70 percent a year. By the year 2000, China will have a cultivated land area of 1.368-1.373 billion mu which, at a population of 1.3 billion, will average out to about 1.05 mu per person. As to grain production, this will reach 495.9 million tons by the year 2000, for an average increase of 1.34 percent a year, giving us 381 kg of grain per person, still under the 1984 level; by 2010, gross output will reach 576.33 million tons, for an average increase of 1.51 percent a year, to give us 412 kg per person, slightly higher than the minimum of 800 jin [one-half kg] per person.

II. Our Agricultural Development Strategies for 1996-2010

It is not hard to see from the above analysis that China's farm-product supply and demand situation will be quite grim from 1996 to 2010. Unless we resolve this matter appropriately, it will very likely affect China's industrialization progress, our realization of a comparatively well-off economy, and our rural and even overall national stability. So to ensure that our agriculture in this period is as suited as possible to our national economic-growth needs, we need to take corresponding countermeasures starting now. As to the conflicts and problems that our agriculture will face in this period, we hold that our basic agricultural-development

guiding ideology for this period should be to adhere to the principle of developing but not depending wholly on markets and, with state support, to focus on structural adjustment, by relying on S&T, policy, input, and service to promote agricultural growth, on which basis to appropriately regulate and guide farm-product demand.

In the next 15 years, as our farm-product demand will have been converted from the traditional quantitative demand to qualitative and variety demand, making our traditional planned guidance hardly suited to diversified and frequently-changing market demand, we will have to persistently move ahead with agricultural market-reform. Meanwhile, we need to soberly understand that as agriculture is a traditional industry, it will suffer much more heavily from the adverse impact of a market economy than other industries. Particularly as Chinese agriculture is so short on resources and weak in base, so will be in a very adverse position in market competition, we will have to accompany our adherence to market reforms with a great emphasis on state support for agriculture, instead of trying to push agriculture completely into markets as in the previous stage.

With state support, structural adjustment will be our key agricultural-development mission for the next 15 years. Structural adjustment will enable us to adapt to demand changes and achieve overall growth. In farming, structural adjustment will raise our percentage of high-yield, quality crops, giving us overall farming growth, on which basis we

can focus on developing livestock, aquatic products, and famous, specialty, and superior farm products.

Based on the above guiding ideology, we are making the following strategic suggestions:

1. We should continue to move forward resolutely with market reform.

A. We need to accelerate our development of diversified circulation subjects. Farm-product circulation is a problem obstructing our current agricultural development that is in urgent need of solution. As the key to rationalizing farm-product circulation is to establish plural circulation subjects in equal competition, the government needs to avoid direct participation in circulation, to treat equally all economic entities taking part in farm-product circulation. Equal competition among circulation subjects of all components will promote market development. The government's key future intervention in farm-product circulation should be: 1) To establish and perfect market-order and transaction rules, and to draw up scientific laws and regulations for farm-product trade. 2) To set up a regulatory system for staple farm products, particularly grain reserves, using this system's volume to balance farm-product market supply and demand. So we are suggesting the establishment of a Central Grain Reserves Regulation Bureau to be directly subordinate to the State Council, independent of the commercial system, and fully independent in financing, storage capacity, and operation.

B. We need to establish a diversified rural money market. We need to separate out the policy-bank functions of the Agricultural Bank (AB), by upgrading the AB to a genuine commercial bank, and upgrading credit cooperatives to a peasant-owned and business-like cooperative bank, while supporting rural cooperative foundations and other private financial organizations in the formation of a diversified rural money market under Agricultural-Policy-Bank leadership.

C. While developing a diversified agricultural capital-goods market with equal competition, the state needs to enhance its management of the agricultural capital-goods market. As to the production and sale of important agricultural-use manufactured goods, it must exercise the necessary licensing system, do a good job of technical oversight, and stop agricultural cheating and swindling at the production and sale source.

D. We need to establish rational flow mechanisms for our cultivated-land resources, to encourage the right scale of operation. We suggest strengthening the authority of collective economic organizations to allocate cultivated land and, based on collective economic organizations developing jobs to transfer surplus agricultural manpower, paving the way for the remaining agricultural workforce to contract enough cultivated land. Meanwhile, to keep our cultivated land from being adjusted too frequently and steadily downsized in operating scale, our future land-contract terms could be extended to a fixed 30-50 years on the principle of "adding people but not land,

and reducing people but not land," with contract rights being inheritable and allowed to be sold at value.

2. The state should support farm-product supply. State support should be aimed at promoting agrotechnology advances, raising agricultural productivity, and improving to a certain extent the adverse position of agriculture in market competition.

A. Revenue investment in agriculture should go mostly to maintain stable economic growth, with profit-making investment reduced as much as possible, and revenues invested mainly in basic industries that are unprofitable but play a key role in maintaining stable economic growth, thus preparing the material foundation for revenue support of basic industries, such as agriculture.

B. The state needs to include agrosience research and S&T dissemination in basic academic disciplines, suitably increasing its investment and providing priority support, instead of overemphasizing the marketization route for agricultural S&T dissemination.

C. We need to establish and perfect state credit-support for agriculture. Once the State Agriculture Policy Bank is established, it should apply a preferential interest-rate policy to agricultural loans.

D. The state should continue to focus some financial resources on large-scale water-conservancy capital construction on farmland. We need to upgrade our old irrigated zones, by giving priority support to the restoration and completion of irrigation and drainage projects. Future state investment in farmland capital construction of water conservancy works should grow faster than or at least as fast as revenue growth.

E. For farm-product purchasing, we should practice a minimum protective-price system.

F. We need to continue to build commodity bases for farm products, particularly grain. We could select 500 large commodity-grain counties throughout China for preferential state funding and technical support.

3. With state support, we should turn S&T advances into this stage's agricultural-growth leader.

A. We need to make breakthrough advances in cultivating farm-product varieties. The state ought to organize the agricultural S&T sector to tackle key S&T problems, by developing a batch of high-yield and quality varieties among staple farm products, such as rice, wheat, cotton, and oil-bearing crops, in order to meet the needs of structural change in farm-product demand during this period.

B. We need to focus on developing resource-conservation, particularly land-conservation, agro-production technology, with our main lines of attack, in addition to breeding, being areas, such as planting patterns, cultivation (breeding) technology, fertilizer-application technology, crop protection, and epidemic-disease prevention and control, to form a comprehensive, complete, and mature technology model for dissemination and application.

- C. We need to raise our farmers' S&T levels to new heights. We should develop agricultural high schools faster, utilizing all forms to run agrotechnology training classes. Through these measures, we should strive to raise in this period our ratio of agricultural growth from S&T applications to all agricultural growth from its current 30-40 percent to 50-60 percent.
4. We should set up a sound socialized-service system for agriculture. In the next 15 years, the state should vigorously support the building of a pre-, mid-, and post-production agricultural service-organization system. We suggest that the state select 100 counties a year from now on, with the Agricultural Policy Bank arranging 10 billion yuan in special loans, to be specially used to help all rural service organizations set up a group of service entities that integrate trade, industry, and agriculture, as well as cultivation, breeding, and manufacturing. This should promote the development of our whole rural economy.
5. We should open up small- and medium-sized cities faster, build small cities and towns in a planned way, and speed up the conversion of our agricultural workforce, to pave the way for an agricultural economy of scale.
6. We need to guide residents in a planned way to evolve a food-consumption structure with equal emphasis on plant and animal foods. Our studies show that as the economy develops, food-structure changes are roughly from mostly plant foods to mostly animal foods and then to an equal emphasis on plant and animal foods. But in order to resolve China's conflict of a shortage of agricultural resources while taking health into consideration, we suggest purposely detouring the mostly animal foods stage to go straight into the one of equal emphasis on plant and animal foods. So we suggest speeding up reform of our subsidized supply system for urban life-service facilities, to lower farm-product demand. This will include matters, such as thoroughly reforming our low-price consumption system for farm products, speeding up our housing commercialization, and raising our consumer prices for items, such as health care, urban transportation and communications, and nongovernmental energy use.

Agricultural Product Pricing, Circulation Problems

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[Article by Cai Ping (5591 5493): "Problems in the Agricultural Product Pricing and Circulation Systems and Some Solutions"—the authors are affiliated with the Ministry of Agriculture's Comprehensive Planning Department]

[Text] Looking back at the 15 years of reform of the agricultural product pricing and circulation systems, especially the very vigorous reform in the last two years, we have had amazing results, but there are also some problems. The major problems are seen in the following areas:

1. There are conflicts between small productions and the big market:

A basic condition existing in the agricultural sector at this stage is the contradiction between small productions and

the big market. In 1992, we had 224.89 million peasant households nationwide. They had production, circulation, and management autonomy, but limited and constrained by transportation and information and other conditions, the small-scale production management mode of individual families and households cannot really meet the needs of a nationwide big market. Every time the wind blows and the grass rustles—at the slightest sign of trouble—there will be serious supply and demand problems. They often lead to all kinds of buying and selling "hardships" which obstruct circulation and in turn jeopardize and dampen the peasant production enthusiasm.

2. The "price scissors" between industrial and agricultural products have widened in recent years, and the peasant real income have been slow to increase:

In 1989, the retail price index of rural industrial products rose 18.7 percent; the procurement price index of agricultural and sideline products rose 15 percent—the price scissors between industrial and agricultural products widened by 3.2 percent in a year. Meanwhile the peasant per capita net income was 601.51 yuan, 1.6 percent lower than in the previous year. This was the first time the peasant income showed negative growth since reform began. In 1990, due to lower negotiated and market prices of grain, the agricultural and sideline product price index fell to 97.4 percent, 2.6 percentage points below the 1989 level, and during the same period, the rural industrial product price index rose 4.6 percentage points; the "price scissors" between industrial and agricultural products widened by 7.4 percent. In the same year, the peasant per capita net income was 686 yuan, and discounting the price factor, it only increased 1.8 percent over the previous year. In 1991, agricultural and sideline product procurement prices fell 2 percent compared to the previous year, but in the same period, rural industrial product prices went up 3 percent; the peasant per capita net income was 709 yuan, and discounting the price factor, income rose only 2 percent compared to the previous year. In three years, the peasant per capita net income only rose an average of 0.7 percent a year, but based on constant prices, the rural population's per capita agricultural output value was rising at an average rate of 5.4 percent per year. Agricultural output value was increasing much faster than the peasant net income. Under the Seventh Five-Year Plan, peasant per capita net income rose 9.6 percent, but in the first two years of the Eighth Five-Year Plan, their income only increased 6.9 percent; the rate of increase has clearly slowed. In 1992, the peasant per capita net income was 784 yuan, and discounting the price factor, their actual income was 5.9 percent higher than in 1991. Agriculture's lack of productive momentum seriously undermines agricultural input.

3. Because of the shortage of procurement funds, the lack of storage facilities, and departmental separatism and local blockades, the circulation of agricultural products is often plagued by "hardships" the handing out of "IOUs" and other blockages in the circulation system, and the situation is becoming increasingly serious.

Statistics show that in the fall of 1992, the nation needed more than 90 billion yuan in grain and cotton procurement funds, and there was a 50-60 billion yuan shortfall. Many localities had no cash at the time they weighed and

bought the grain and cotton and could only hand out "IOUs." According to the Ministry of Agriculture's statistics, at the peak, as much as 3.7 billion yuan's worth of "IOUs" were handed out last year for grain and cotton procurement nationwide. This seriously dampened the peasant and the masses' productive enthusiasm.

4. Too large a percentage of the main crops are put under state-set prices and centralized management, and their prices are too low:

Currently, of all the agricultural products procured by the state, the prices of five types are set by the state. In some cases, the power to set prices have been handed down by the higher authorities but not at the lower levels; some prices are decontrolled in name but not in fact, and sometimes the central government has decontrolled prices but the provinces have not, or the provinces have but not the cities. The mandatory nature of those prices has not changed. Take grain prices for example. Even though 28 provinces and municipalities nationwide have partially or completely decontrolled the procurement prices; in fact, grain procurement prices must still comply with the state-set minimum protection prices and cannot really move up or down according to market supply and demand conditions. The power to set prices for cotton and tobacco is still in the state's hands, which does not mobilize the productive enthusiasm of the localities and the peasants. In addition, there is no price differential to account for the major farm products' quality difference, which does not give expression to the pricing principle of higher price for better quality and lower price for poorer quality. This does not facilitate high yield, high quality, and high efficiency in agricultural production.

5. The way the state sets prices causes the peasants to be inflexible about demanding higher prices:

In recent years, in the wake of the significant increases in the price of agricultural means of production, the cost of farm production has also been rising at a rate of 10 percent a year. The peasants have become increasingly vocal in demanding the state to set higher cotton, tobacco, and other agricultural product prices. Even though the state has raised cotton prices four times since 1987, because of plant diseases and insect pests, the comparative advantage of planting cotton has steadily declined. In 1992, some localities have shown negative growth in the after-tax, per-mu net profit, and the peasant clamor for higher cotton procurement price has grown louder. Shandong and other localities have even demanded raising cotton price by 100-150 yuan per dan; otherwise cotton production will continue to slip. Although the state readjusted grain procurement prices in 1992, many peasants are still complaining that the prices of capital goods are increasing too fast and grain prices are still too low. Constrained by its financial strength, the state cannot raise agricultural procurement prices year after year, and this has exacerbated the conflict and contradiction between the state's and the peasants' interests.

6. There are big loopholes in the pricing mechanism, especially in the double-track pricing of some agricultural products.

When the market price of agricultural products is higher than the state-set procurement price, not only the peasants look at the price differential as an invisible burden

and are unwilling to fulfill their fixed quota procurement responsibilities but even some procurement departments and management units, acting in their own interests, will down-grade the products to lower prices and dock the peasants' pay and re-buy and resell the planned and extra-plan goods to make a profit and add to the confusion in the circulation domain.

7. Price management of most decontrolled agricultural products is in a state of confusion:

By the end of 1992, after more than a decade of price reform, about 90 percent of the prices in the retail sector have been decontrolled. More than 75 percent of the agricultural products procured by the state now either follow the state's guidance prices or market-regulated prices. From the point of further reform of the agricultural pricing system in the future, the proportion of state-set prices will continue to shrink, and the share of market regulated prices will continue to grow, and eventually, all prices will be decontrolled. But in the interim, the state has not yet set up an indirect macroeconomic regulation and control mechanism to regulate market prices, and when market prices surge or plunge, it can only resort to even more administrative measures to intervene; it cannot truly give play to the economic, legal and regulatory, and other macroeconomic regulation and control measures.

8. In recent years, in the wake of bumper harvests of grain and cotton and other major crops, the conflicts between the production and sales areas are further exacerbated.

In years of bumper grain harvest, the warehouses in the main production areas are filled to the brim but cannot transfer the grain out while the sales areas are not stocking grain but will transfer grain in as their stock is depleted. When cotton production is low, out of their self-interest, the production areas often ignore the state's allocation and transfer plan, forcing the mills in the sales areas to shut down as they wait for raw materials. Conversely when there is a bumper cotton harvest, the sales areas will ignore state plans to transfer cotton in a timely manner, and as a result, cotton is stockpiled in the production areas, slowing the fund turnover rate.

9. The existing grain policy does not mobilize the peasants' enthusiasm in developing agricultural production:

Even though China has adopted a protective price system in grain procurement this year, judging by actual results, these prices have not really protected the peasants' rights and privileges. The scope of protection is too narrow: It is limited only to the original state contracted grain procurement and special grain reserve; other grain purchases at negotiated prices are not protected by the state. Moreover, most grain produced by the peasants still do not qualify as commodity, and under this kind of double-track grain pricing system, when there is plenty of grain, the state is unable to buy up everything, and it down grades the product to lower prices or issue "IOUs" when making purchases, so that the peasants are in effect subsidizing the purchases, and when there is a grain shortage, the state wants to "monopolize" everything, and the peasants are again short-changed. In addition, the state financial subsidies are rising sharply year after year, and even though grain sales have been made at the procurement price in the last two years, state expenditure on subsidizing the circulation of farm products has continued to rise. Both the state and the peasants are losing money.

10. The surge in the prices of means of production has seriously dampened the peasants' production enthusiasm.

In 1992, the agricultural product price index rose 3.4 percent while the price of agricultural capital goods went up 3.7 percent and the cost of living for peasants rose 4.7 percent. Even though the state has set a maximum ceiling price for chemical fertilizers and other means of production this year, their prices have continued to surge. The price of state-allocated urea rose from 538 yuan a ton in 1991 to 662 yuan in 1992, a 23 percent increase. The composite price of urea rose from around 880 yuan last year to around 1,040 yuan this year, rising more than 10 percent. Locally produced small batches of carbonic ammonium tanan also rose from 300 yuan last year to 340 yuan this year. Meanwhile, the prices of grain and cotton and other farm products the peasants sell to the state have remained relatively low. The outcry that farming does not pay, that farming is a money-losing business has grown increasingly loud.

11. The market system is unhealthy:

Currently, the agricultural product circulation market has a small radius; the market's role is seriously curtailed. "Hardships" take turns in plaguing the buyers and the sellers, and prices either surge or plummet. The bartering position and trading conditions for peasants have further deteriorated; the cost of exchange and the price of information have risen sharply. The price hazards are borne entirely by the state and the peasants.

The only way to solve the above problems is to deepen the reform of the agricultural product pricing and circulation systems and further decontrol prices, decontrol management, and decontrol the market, so that the market mechanism truly plays a role in regulating supply and demand as well as prices. However, this does not mean that the state should wash its hands of everything; instead it should continue to strengthen the macroeconomic regulation and control, as well as management of the decontrolled farm products, and gradually set up a sound state agricultural reserve system and hazard regulation fund system and other price protection systems. Only in this way can we gradually set up a new system compatible with the socialist market economy and develop the new and necessary agricultural product pricing and circulation systems.

1. We should continue to implement a contract procurement system for key agricultural products:

Currently even though grain and most agricultural product prices have been decontrolled and are regulated by the market, the thousands and hundreds of thousands of peasant households who are accustomed to the product economy are having trouble adjusting to this sudden transition from the product economy to the market economy. The state must provide guide the peasants' production management activities to help them cope with the risks and the income fluctuations brought by the market economy as soon as possible. As far as the state is concerned, it needs a relatively stable supply of commodities in order to avoid the hazards brought by market volatility. Therefore, the state both wants to and also needs to implement the contract procurement system with regard to grain and cotton and other major

crops that affect the national economy and the people's livelihood. The contracts should be signed by the peasants with the state on a voluntary basis and in accordance with the principle of equal exchange and fair negotiation. The state should guarantee purchase of agricultural products under contract to further set standards for the peasants' production behavior.

2. We should continue to implement the agricultural product protection price and a host of preferential policies and measures:

This year, 28 provinces, municipalities, and autonomous regions nationwide have partially or completely decontrolled their grain procurement prices. Because of reduced output of cotton last year, the state's cotton reserve is low and it will continue to sign contracts for fixed quota procurements. However, as three of the provinces piloting the reform of the cotton circulation system, Shandong, Henan, and Jiangsu will open up their markets after fulfilling their nationwide procurement contracts. In the future, the state should continue to expand the pilot project to reform the cotton circulation system, striving to decontrol the management, the market, and the price of cotton by 1995, and it should gradually set up a new system under the state's macroeconomic regulation and control which makes market regulation the primary means of regulation, links domestic and foreign trade, and creates a highly efficient and smooth cotton circulation system. But in order to guarantee the sustained and steady development of agricultural production, the state must install supportive prices for grain and cotton and other major crops that are vital to the national economy and the people's livelihood. Each year, before the peasants begin planting, the state should announce the minimum protection price, and if the market price is higher than the minimum price, procurement should be made at market price, and if the market price is below the minimum protection price, the minimum price should prevail so as to truly protect the peasants' interests. The purchased grain and cotton should primarily be put into the state's reserve.

3. We should set up a key agricultural product price hazards fund or price regulation fund system:

Setting up a major agricultural product price hazards fund or price regulation fund is one of the important measures the state can use to regulate and control price fluctuations. To impose supportive price or protection price for the major agricultural products, it is necessary to have a price hazards fund or price regulation fund as safeguard; otherwise it would be difficult to impose those prices. The funds should be financed primarily by the state, and a secondary source may be the local governments. In addition, with the elimination of price subsidies for grain and cotton and other important crops, the state can use the money earmarked for the subsidies to finance the regulation or hazard fund.

4. We should gradually set up a three-level—central, provincial, and prefectural (county)—reserve system.

Nature still plays a critical part in China's agricultural production. Natural disasters and market supply and demand conditions have tremendous impact on farm output. Bumper harvests often create large stockpiles; the

crops cannot be sold at the set prices, which results in lower income for the peasants, and this in turn diminishes their production enthusiasm. When crops failed, it often leads to panic buying of farm products, causing an upsurge in prices and severe ups and downs and highs and lows in farm production which have an adverse effect on agriculture's sustained, steady, and smooth development. Setting up a three-level—state, provincial, and prefectural (county)—reserve system for the major crops will play a positive role in the state's macro market regulation and control, in guiding farm production, and in stabilizing the agricultural product markets and product prices. Currently, the country already has a reserve of more than 70 billion jin of grain, more than 20 million tons of cotton, and more than 2 million tons of sugar, but they fall far short of the needs of the development of the socialist market economy. As the economy continues to gather strength, the state must further expand and increase its grain, cotton, oil, sugar, and other key agricultural product reserves in order to promote steady increase in agricultural output. Only in this way can we promptly regulate the disequilibrium in the supply and demand of grain and cotton and other key agricultural products so as to stabilize the market and curb price increases.

5. We should further strengthen the macro management and regulation and control of the decontrolled agricultural products.

In the wake of the ever-deepening reform of the agricultural product pricing and circulation systems, the absolute majority of the farm products have turned to the market and are regulated by the market. Therefore, the state must further strengthen its macro management and regulation and control of the decontrolled agricultural products, further standardize their market behavior, strive to strengthen the supervision and management of the agricultural product market, and use legal means to manage and rectify market order. It should formulate and announce a guidance-oriented plan for the major crops each year and make market forecasts, and it should promptly announce the guidance-oriented prices and commodity supply-demand information each year before the peasants begin production, so that it can correctly guide the peasants' production management activities, standardize the commodities exchange activities, and advocate fair competition, and it can prevent price gouging, deceptive and predatory market practices, and monopolistic behaviors.

6. We should actively nurture and develop all sorts of country fair markets and wholesale markets for agricultural and sideline products.

Agricultural production management must turn to the market and implement market regulation. Amid intense market competition, we must ascertain the changes in market demand and develop products that sell, that are of high quality, high yield, and are highly efficient, and by continuously developing the primary processing and deep processing of agricultural products, we can increase their added value and continuously raise the input-output ratio. This would require us to nurture and develop all types of agricultural product country fair and wholesale markets, and through these markets, we can guide the flow of goods, so that the products truly flow smoothly, and then we can promote agricultural development and upgrade the product-mix.

7. We should actively promote the integration of planting, breeding, and processing; commerce, industry, and agriculture; peasants, workers, and businessmen and further strengthen the socialized system of services to fully coordinate the production, supply, and marketing of agricultural products.

Actively promoting the whole series of services to integrate or seriate planting, breeding, and processing; commerce, industry, and agriculture; peasants, workers, and businessmen is one way to properly resolve the uncoordinated production and sales of agricultural products, the separation of town and country, and the contradiction between small productions and the big market. On the one hand, the leading enterprises and the peasants will be guaranteed their own fairly stable source of goods and marketing channels, which will greatly relieve the "hardships" in the buying and selling of agricultural and sideline products. On the other hand, by processing and changing the agricultural and sideline products and increasing their added value, the peasants can steadily increase their income.

8. We should continue to implement the policy of setting maximum ceiling prices for chemical fertilizers, diesel, and other important agricultural means of production.

To maintain the sustained, stable, and smooth development in agricultural production and make sure that the peasants do benefit from growing crops, in the next few years, the state must implement the policy of setting maximum ceiling prices for chemical fertilizers, diesel, and other important agricultural means of production, so as to truly protect the peasants interests. The policy of setting maximum ceiling prices should not be limited to factory-exit prices but should extend to retail prices too. Today, a ceiling price only applies to the factory-exit price but not to the retail price, and this in fact cannot curb price increases but actually causes prices to go up. Therefore, so long as the prices of factors of production have not merged tracks with international prices, we must continue to set maximum ceiling prices for chemical fertilizers, diesel, and other important means of production. After setting maximum prices, the state should subsidize the chemical and industrial enterprises that have incurred losses as a result.

9. We should continue to perfect the two-tier contract management system that integrates centralization and decentralization and further develop coordinated services before, during, and after production.

To resolve the peasants' small production management style which is based on a single household or a single family, we must further deepen the reform of the rural economic system. In particular, we should further perfect the two-tier contract management system that integrates the centralization and decentralization of agricultural products. We should continue to launch a series of coordinated services before, during, and after production, so that we can gradually attain economies of scale in agricultural production and escape or resolve the contradiction between the individual households' or families' small-farmer production and the socialist unified great market circulation. We should gradually set up a comprehensive, coordinated service system extending the entire agricultural production process, so that the peasants can adjust to the transition and changes from planned agriculture to

market agriculture as soon as possible. Of course, we will fall short if we rely only on the above measures to resolve the contradictions in the agricultural product pricing and circulation realms. The state must continuously increase its investments in agricultural production, improve agri-

cultural infrastructure and capital construction, strengthen agriculture's fundamental role, and increase agriculture's comprehensive productive capacity. Only in this way can agricultural production continue its sustained, stable, and smooth development.

National Cultivated Land Area

94CE0397K Hefei ANHUI RIBAO in Chinese
11 Mar 94 p 7

[Summary] At present, the cultivated land area in China exceeds 1.9 billion mu.

Regional Per Capita Net Income of Farmers in 1993

94CE0397J Beijing ZHONGGUO XINXI BAO
in Chinese 4 Mar 94 p 2

[Text]

Per Capita Net Income of Farmers in 1993 unit: yuan/person year

Place	Per Capita Net Income		1993 Increase, Decrease From 1992	
	1993	1992	Amount	Percent
National	921.4	784.0	137.4	17.5
Shanghai	2726.98	2225.87	501.11	22.5
Beijing	1882.58	1571.56	311.02	19.8
Zhejiang	1745.94	1359.13	386.81	28.5
Guangdong	1674.78	1307.65	367.13	28.1
Tianjin	1473.12	1309.01	164.11	12.5
Jiangsu	1266.87	1060.71	206.16	19.4
Fujian	1210.51	984.10	226.41	23.0
Liaoning	1160.98	995.10	165.88	16.7
Heilongjiang	1028.36	949.20	79.16	8.3
Shandong	952.74	802.90	149.84	18.7
Hainan	949.49	842.79	106.70	12.7
Guangxi	892.41	731.69	160.72	22.0
Jilin	891.61	807.41	84.20	10.4
Jiangxi	869.81	768.41	101.40	13.2
Hunan	851.87	739.42	112.45	15.2
Hebei	803.80	682.48	121.32	17.8
Hubei	783.18	677.82	105.36	15.5
Inner Mongolia	777.95	672.17	105.78	15.7
Xinjiang	777.62	740.44	37.18	5.0
Anhui	724.50	573.58	150.92	26.3
Shanxi	718.33	627.01	91.32	14.6
Sichuan	698.27	634.31	63.96	10.1
Henan	695.85	588.48	107.37	18.2
Yunnan	674.79	617.98	56.81	9.2
Qinghai	672.56	603.40	69.16	11.5
Shaanxi	652.99	558.79	94.20	16.9
Ningxia	636.39	591.01	45.38	7.7
Guizhou	579.67	506.13	73.54	14.5
Gansu	550.83	489.47	61.36	12.5

Study Identifies Eleven Social Diseases
94CM0163C Shanghai SHEHUI [SOCIETY]
in Chinese No 108, Jan 94 p 45

[Article by Gu Chu (6253 0443): "Study Identifies Eleven Social Diseases"]

[Excerpts] Under the organization and direction of Zhang Ping [1728 5493], a research associate at the Sociology Institute of the Chinese Academy of Social Sciences [CASS], and working in their spare time, 13 researchers from the Legal Studies Institute, Sociology Institute, Ministry of Supervision, Ministry of Public Security, Ministry of Public Health, and the China University of Politics and Law, among others, collected and analyzed for the first time the social problems facing China today and put forward countermeasures. In so doing, they accomplished an urgently-needed research mission on China's current social ills.

They divided China's existing social problems into 11 categories, the foremost of which is the corruption and dereliction of duty by government employees, as when they abuse their office to further personal interests, take bribes, squander away public funds, wine and dine, and send gifts. The second problem is organized crime, which has been on the rise since the 1970's and now directly threatens the people's daily lives and law and order. The third problem is economic crime, the fastest-growing crime. Next is the manufacturing of bogus, counterfeit, or shoddy products, a pitfall on the road toward creating a socialist market economy in China. The fifth social disease is drug-related crime, which has been skyrocketing. The sixth disease is prostitution, which goes hand in hand with the seventh—sexually transmitted diseases—and eighth—the proliferation of pornographic materials. The ninth disease is the outright buying and selling of women and children, a gross violation of their legitimate rights and interests and a cause of the tenth disease, namely illegal marriage, which essentially means early marriage, arranged marriage, bigamy, concubinage, marriage between close relatives, and prohibited marriage. The eleventh social disease involves feudal and superstitious activities, which at one point were subsiding and diminishing only to reappear openly and extensively in a variety of forms in recent times.

Zhang Ping, the researcher, said that social problems and social contradictions exist in any kind of society and that it is precisely through the resolution of endless social problems that a society matures. From the perspective of social control research, the various diseases in China today—widespread impermissible behavior, transgressions, and criminal conduct—essentially belong at the first level of loss of social control, that is, the break-down of methods or means, not bad enough to endanger the existence and development of society. However, if the break-down of methods is not checked effectively and allowed to continue, it will escalate to the next level, namely erosion of trust in and declining compliance with all social norms, which will undermine the public's sense of sacredness about such norms. If the break-down of methods is allowed to reach the third level, the "disintegration of basic goals," then "absolute lawlessness" will ensue and things will get utterly out of control, leading to the collapse of the entire body of social institutions. [passage omitted]

(Excerpted from SHEKE XINXI and NANBEI QIAO)

Economic Interpretation of Political Corruption
94CM0208A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 289, 1 Feb 94 pp 48-49

[Article by Fang Su (2455 5685): "Is Corruption Harmful to Economic Development—Liu Pei-chiung on Mainland China's Corruption Problem"]

[Excerpts] [passage omitted] Liu Pei-chiung (0491 0160 3890), director of Hong Kong Polytechnic's Business Department [hsiang kang li kung hsiueh yuan shang yeh hsi 7449 3263 3810 1562 1331 7108 0794 2814 4762] and assistant director for training of the (?China Commerce Exchange Center) [chung kuo shang yeh jiao liu chung hsin 0022 0948 0794 2814 0074 3177 0022 1800], says that, according to her observation and analysis, corruption on the mainland, though a big problem, has not become an established practice, nor is it causing tremendous harm. On the other hand, she adds, irrational allocation of resources has a much more adverse effect on the economy. This article will give a summary of her view. [passage omitted]

Corruption means that someone gains by taking advantage of his or her power or position to control the supply of materials, information, or other things. From the viewpoint of economics, what he or she gains is an "economic rent," and the act is "rent seeking." However, no value is created in this process. In some cases, it is legal to receive this kind of "rent." For example, a charge can be collected for the supply of information. In other cases, to do so is illegal, or in other words, it is not permitted by law. Generally speaking, the latter is called corruption.

Some acts, though illegal, are "good acts" if viewed from the perspective of economics. For instance, a nascent developing country may have too much control over its economic activities. Under such circumstances, some corrupt acts can help break through man-made control and serve as a "lubricant" for economic activities.

In nascent developing countries, though corruption is linked with the relative shortage of materials, its occurrence is also attributable in part to the system that gives officials power to manage materials, information, and so forth. For example, some officials have the authority to approve the supply of materials and control the allocation of resources. This often provides opportunities for corruption, such as abusing power for private gains and granting business people's requests in exchange for money.

In developed countries, certain political operations such as lobbying are also "rent seeking" activities. However, since these countries allow open economic competition, their society and politics are relatively institutionalized, and rule by men exists only to a small extent, the chances for corruption are reduced.

As for the situation on the Chinese mainland, everyone knows that, more often than not, there are many barriers to pass before a task can be accomplished. It is necessary to form good relations with various parties, including officials and organizations. As a result, instances of bribery, embezzlement, and corruption have come into being. Since some corrupt activities can serve as an economic "lubricant," many business people do not mind them. As long as you have a "clearly marked price," I will include that in my

operating cost and go on with my business. And, matter-of-factly, most of such "transactions" are fulfilled as promised; only a few have been aborted. For this reason, a lot of business people from Hong Kong and the branch offices of many foreign companies in China employ special personnel to do diplomatic work. Their job is to promote good "public relations," using such methods as holding dinner parties, so as to remove barriers and "lubricate" business activities. [passage omitted]

Through more than a decade of reform and opening-up and with the development of the economy, corruption on the Chinese mainland has changed its style. In the past, corrupt officials often asked for cigarettes, liquors, dinner parties, and electrical appliances from business people. As time has passed by, few of them are now asking for cigarettes, liquors, or electrical appliances, and dinner parties are not so welcome as before. On the one hand, this is because they earn a higher income and no longer have a strong demand for such things. On the other hand, they have shifted their demand to other areas, like traveling overseas in the name of making observations and sending their children to study in foreign countries.

As can be seen from numerous reports and instances, corruption on the Chinese mainland occurs mostly in government departments and state-owned enterprises and institutions. Corrupt departments and personnel can be roughly divided into four categories: 1) cadres in charge of economic work, such as managers and factory directors of state-owned enterprises, and certain government departments, such as the State Land Administration Bureau, urban construction departments, and other units that control the use of land—these government departments have relatively more corruption problems; 2) judicial and law-enforcing departments, such as public security police and courts; 3) departments of public utilities that have long experienced shortage of supply or inadequate capacities, such as transportation, water, electricity, and telephone departments; and 4) bank personnel responsible for loan business.

The above government departments and state-owned enterprises and institutions either enjoy privileges or hold a monopoly in their respective fields of operations. Privileges and monopoly have not only created corruption, but also resulted in seriously inappropriate allocation of resources. For instance, most state-owned enterprises are suffering losses either overtly or covertly and have to rely on state support to survive. Another example is that the government's manner in approving appropriations cannot achieve effective use of funds. In fact, there are not so many instances of embezzlement in fund-approving departments and units, and the amounts of embezzlement are limited. However, the economic losses caused by them due to inappropriate allocation of resources are enormous. The harm done to the economy is more serious than corruption.

The primary reason for this state of affairs is that for a long time economic questions have been dealt with by non-economic methods. Another reason is that property rights are not clearly defined. Under the public ownership system, what is dealt with by economic policymakers are not their own property, and they are not held responsible for any economic consequence if their policies are wrong. If a deficit has occurred, they can ask for subsidies from the higher authorities. A similar logic applies to extravagant wining

and dining at public expense. Anyway, the money spent is from the public coffer. [passage omitted]

Has corruption become an established practice on the Chinese mainland? The answer is that it has not reached such a terrible extent. In the first place, the regulations stipulate that those in charge of economic work are not allowed to do government work. This "distinction between government and economic work" has greatly cut the political power of those running state-owned enterprises and managing state assets, thus reducing the possibility of simultaneous monopoly of political and economic powers.

Second, at present the economic power is not so centralized as in the past, but is being gradually delegated to departments in various localities. Although local party and government cadres have a lot of substantive power in political and economic affairs, there is a local election system, and officials are accountable to the collective. So it is impossible that they can act without scruple.

Third, most people grumbled seriously when they saw children of high-level cadres do business or conduct other activities by taking advantage of their privileges. These activities are, of course, unhealthy, but they have not become an established practice and created a corrupt regime with monopolized political power as former Filipino autocrat Marcos did.

Fourth, the Chinese Communist Party's discipline still has a binding force on cadres, though its effect is diminishing. Generally speaking, high-level cadres are well-disciplined, while most problems occur in local governments. Since they are far away from the central authorities, "local emperors" have come into being. As for launching movements to strike at corruption, the reason is that a discipline-inspection movement is more effective than law. When law must be used, because of the high cost involved, the method adopted is to "deal with typical cases" so as to "punish one as a warning to a hundred." [passage omitted]

After the Chinese mainland has opened itself to the outside world, foreign capital has flowed in. Has this induced more corrupt activities? This is not necessarily the case. On the contrary, market competition has been introduced along with the in-flow of foreign capital, smashing the disastrous monopoly. Now, all localities on the mainland are rushing to solicit capital from outside, aren't they? Before competition is introduced, you had to give someone benefits if you wanted to do something. Now, there is competition. In one locality, you are required to give out benefits; in another locality, you may find this is not necessary. In one locality, you must go through a number of departments; in another locality, you may find that all departments related to foreign investment are located in one place, and they serve your needs from beginning to end. This has reduced the instances of corruption.

By studying the problem of corruption as an economic issue, we have arrived at this conclusion: Building a market system to promote open competition will not only raise efficiency in utilizing resources, but also reduce the possibility of corruption.

Survey on Why College Teachers Quit
*94CM0231A Shanghai SHEHUI [SOCIETY]
in Chinese No 110, Mar 94 pp 45-46*

[Article by Shan Liang (0830 5328): "The Festive Candle Drops Blobs of Wax Like Tears—A Look at the Loss of Teachers at Shanghai's Institutions of Higher Learning," excerpted by Lao He (0525 0149) from SHANGHAI RENCAI SHICHANG BAO (SHANGHAI TALENT MARKET JOURNAL) 1993, trial publication No 43] [Excerpt] [passage omitted] A certain relevant party conducted a large-scale survey of 116 institutions of higher learning in 24 cities, among them also Beijing and Shanghai, with the result that 28.5 percent of the teachers at these institutions subscribed to "will definitely move, if I have a chance," 44.3 percent were for "thinking of moving but have certain concerns" and "thinking of moving but am unable to do so," and only 5.8 percent subscribed to "do not intend to move, the present place is ideal."

Taking only Fudan University, "the top-ranking university south of the Changjiang," as example: During the entire 1980's, this university hired 1,442 new young teachers, of whom 402 have by now again left the university. Among these, 384 went abroad for further studies, and 28 [sic!] transferred domestically to other positions with better salary and welfare conditions. The total number of young teachers that left the university accounted for 28.2 percent of those newly higher during the corresponding period. The well-known International Journalism Institute of the said university's Department of Journalism had been famous in China and abroad for its teachers, who, all in the prime of their lives, had displayed outstanding talent. However, in the short space of a few years, they were gone, leaving an empty place where only one lonely teacher remains, so that many subjects can no longer be taught. A responsible staff of the personnel department told this reporter that the university is now losing about 200 teachers every year. An analysis of these shows that by age groups most are middle-aged and young, by specializations most are teachers of presently crucial subjects and subjects with practical applications, and as to their quality, most are outstanding teachers proficient in key subjects. The loss of all these teachers is indeed having an ever more evident adverse effect on the quality of instructions.

During the interviews and investigations, this reporter found out that because many teachers could make their own arrangements about time, they decided on a more practical way out, namely taking up concurrent jobs. Concurrent jobs are of various different patterns: some jobs require fixed attendances so many times a week, in some cases offices are set up at home, while remuneration is by salary, by pieces, or by time, and incomes vary. According to incomplete statistics, among teachers aged below 40 in Shanghai institutions of higher learning, 40 percent have concurrent jobs; the purpose of these is two-fold, namely: first, to improve the economic situation, and second, to achieve a certain self-worth. If these two tracks should collide at any time, the decision in eight, nine out of ten times is "better quit and go elsewhere." These people constitute an unsteady element among university teachers and are of a proportion that must not be ignored. In the first half of 1993, an outstanding

young teacher in the physics department of Fudan University was faced with an uneven scale, to weigh between a 200 yuan and a 2,000 yuan income, and he chose the latter. He abandoned his speciality and abruptly flung himself into the ocean of commercial affairs, to become a salesman, roaming all over the country. For a time this made big waves in society, but whether he was praised or berated for it, the fact remains that he was gone.

The specific places to which these Shanghai college and university teachers are actually moving are the "three capital" enterprises, and the financial, banking, tax, industrial, and commercial sectors, where they vie with each other for positions. This shows that individual income is the most weighty argument that determines the moves of the teachers.

Another one is: going abroad for further studies. In the last two years the frenzy for the TOEFL (Test of English as a Foreign Language) has somewhat cooled down, but going abroad is still a major aim that college and university teachers, especially the younger ones, aspire to, and they now begin to extend the scope of their destinations for studying abroad beyond the United States to Singapore and other small countries. There is also a new trend in this rush to go abroad, when they formerly went abroad it was purely to pursue studies, but now many directly go to take up employment. According to statistics, for almost half of those who go abroad on state stipend or at own expense it is like in the old verse "the yellow-crane flies off, never to return." Even among those college and university teachers that go abroad on scholarly exchanges or scholarly cooperative activities, many settle down in the foreign countries.

The great loss of college and university teachers actually is due to complex and manifold reasons. When college and university teachers in 116 institutions were questioned, "what is the main reason for your decision to quit?" the answers were, in this order: "unsatisfactory social environment," "no prospects for advancement in sight," "poor living conditions and family considerations," etc.

One teacher expressed it this way: The reason why our group of people endured in poverty is none other than the idea of making a contribution to instruction and research. We make no high demands, maintaining a somewhat higher than middle level in society and having a relatively quiet environment for study and private life, that is all. If these demands cannot be met with, we cannot see any value in our profession and should make a change. However, when it really comes to change the old habitat, there is much inner conflict and pain; discarding 20-odd years of work is like cutting off a "first love."

There was a certain Li, a young teacher of modern literature at a certain teachers training college in Shanghai. As an excellent graduate, he was kept on by the college, and for a time he was happy and proud to wear the red college badge. However, we don't know when it started, but the color and lustre of the badge faded. Last year, he took his family back to the countryside. There, some puny, average-grade former schoolmates of his were spending money 600 yuan at a time, visiting sing-song places and dance halls, and there again spending lots of money, all that left this highly talented man speechless with surprise and suddenly feeling that he cannot associate with them anymore. This matter really stirred him

up inwardly, although he was ordinarily of a quiet disposition. Formerly, he lived the quiet life of a man devoted to studies, who after class would discuss the present state of literature with groups of students, obsessed with literature, and in fact he was extremely happy. However, now his frame of mind is quite different. If he could, he would warn youngsters who are full of poetic sentiment and picturesque ideas that literature cannot take the place of life, but may only be an embellishment of life. Look at yourself, at your low status of literary types within the system, when will you ever amount to anything in the pecking order according to qualifications. Finally, this teacher who is long over the age of 30, who had delved into the books and passed the examination of graduate student at another university, decided to change his profession.

An old professor of economics at a famous university had formerly always thought it shameful to talk of money, but has recently had good reason to worry about money. He had some manuscripts on his specialty, which were the fruit of many years' painstaking labor, and which he wanted to present to the university as his valuable gift on retirement. However, since they were mostly on theory and too high-brow to be popular, the publishing company told him: either you underwrite the sale of 5,000 copies, or contribute 10,000 yuan to the expenses. This sum is not a small amount for a teacher who has been poor all his life, and was completely beyond the old teacher's means. Later, a very farsighted industrialist generously came to the rescue at the last moment. After this, the professor was painfully regretting: "If I would be 20 years younger, I would also move out." [passage omitted]

Widespread Feudal Superstitious Activities

94CM0231B Beijing LIAOWANG [OUTLOOK]
in Chinese No 6, 7 Feb 94 pp 45-46

[Article by Li Guodong (2621 0948 2767), Legal Work Committee of the Standing Committee, People's Representative Committee of Minquan County, Henan Province: "Severely Combat Feudal Superstitions Leading to the Commission of Crimes"]

[Excerpt] [passage omitted] Feudal superstitions, a kind of decadent ideology, had already been contained over a vast area during the early years of New China. However, these days the recurrence of feudal superstitions has again become in certain areas a public menace to social security.

The Obnoxious Growth of the "Fortune-Telling Craze." Fortune-telling, predicting the so-called "lucky or unlucky fate" by means of planchette or palmistry, has in the olden days been the way some people made a living. Nowadays, we again see their footmarks almost everywhere, from Chongqing's first avenue to in front of the Yellow-Crane Tower in Wuhan, from the shores of Yueya Lake in Dunhuang to the roadsides on Qingdao's Laoshan Mountain. In Shaoyang County of Hunan Province, there is Heyecun Village with 1,900 people of whom an astounding 13 percent make a living by fortune-telling. In Minquan County, Henan Province, a peasant woman became mentally deranged when divination for her came up with a bad omen. She first killed her husband and then herself. In the Nantang

district of Lufeng County, Guangdong Province, it happened within not quite one year that eight girls lightly believed in the nonsense of the fortune-teller and committed suicide.

Outrages Committed by the "Witch Doctor Gang."

According to statistics, approximately 1.8 million witch doctors operate in the various cities and villages; they pretend to be inspired and able to control demons. They practice black magic; they "eliminate misfortunes and heal sicknesses" for people, and they practice quite openly. About 71 percent of them are illiterate or semi-literate. In the countryside, 73.9 percent of sick people ask a witch doctor to cure them, and, as a consequence, a large number of people are harmed by them. A 59.2 percent of male witch doctors have violated women, and 10.6 percent of the witch doctors have caused the death of people. A peasant woman in Yangxin County, Hubei Province, believed a witch doctor when he told her that she is "bound to die on 7 July, unless she prevents the calamity by finding someone to take her place." She thereupon poisoned the son and daughter of a peasant. A couple in Mengjin County, Henan Province, believed a witch doctor when he told them, "your daughter is a 'star of disaster,' a 'patricidal woman,' only a show of blood can ward off your disaster." The peasant thereupon cruelly killed his daughter with a sickle and displayed her corpse at the street corner.

Stirring Up Trouble With "Geomancy." In recent years feudal clan power is raising its head in the rural areas, and such activities as "cleansing the landscape," "identify one's clan cemetery," and "repairing the ancestral temples" are being taken up one after the other. In the end, every opportunity is given the practitioners of geomancy "show off their specialty." They not only obstruct the spread of science and technology in the rural areas, but constantly stir up disputes and armed clashes between neighbors, thus constituting a hidden menace to social stability. In a certain county of Jiangsu Province, it was due to the absurd nonsense of the geomancer who said: "If you grow grapes in your courtyard, your women will give birth to 'grape-like monsters' [hydatids], that the practical and useful technique of grape-growing in that courtyard was never allowed to be spread. When the chief of the Ma clan died in a certain Taipingxiang village, his descendants asked in a geomancer who found a "dragon and phoenix propitiated" plot in the cemetery of the Li clan, which the Ma clan forcefully occupied by mere strength of their superior numbers, but as a result a big fight ensued, and it all ended with one person dead and five injured.

Deceiving People With Ghost Stories Under the Pretext of Doing "Missionary Work." China's Constitution guarantees its citizens freedom of religious beliefs, but strictly forbids to confuse people's minds with "religious missionary activities," thereby sabotaging the society's production and orderly daily life. Many kinds of religious activities that have a strong feudal superstitious coloring are poisonous to the extreme for the uninformed masses and are cause of great tragedies. A villager by the name of You Shengji in Sixian County, Anhui Province, posing as a "believer in Jesus," started a so-called "religious training class," for the alleged purpose of spreading the message of the Holy Bible. He loudly proclaimed: "The spirit borrows my physical body to be married with people, you are all wed to the

spirit." This deceitful nonsense provided him with opportunity to rape or deduce 16 of his female followers. A peasant of Xiangcheng County, Henan Province, a believer in the "White Robe Religion," followed the entreaties of his daughter: "The last day is near, earlier death is the way to paradise," and cut off her head.

Setting Themselves Up as Emperors and Kings and Inciting to Riot. Some reactionary elements are taking advantage of legitimate religious organizations to wantonly conduct inflammatory counterrevolutionary propaganda. They enlist believers, assume titles of kings and emperors, oppose state policy and state law, and wait for an opportune moment to unleash a rebellion. Peasant Li Chengfu and his cronies in Fudicun Village at Funiushan Mountain [Henan Province] started a fund drive ostensibly to rebuild the Hongchun Temple at Laomanchang, the site of an old Tang Dynasty temple, but actually to set up a "Wanshun [all-favorable] Heavenly Kingdom." On the pretext of geomantic inspection, he visited six counties and recruited soldiers, bought horses, and organized a counterrevolutionary armed force. According to his slogan:

"Not the intercalary seventh month, but the intercalary eighth month is right, that is when we will start our fight."

His secret plan was to start a rebellion in the intercalary eighth month [of the lunar calendar] which will occur in 1995. He was later punished according to law by the public security organs. In Yongcheng county in the east of Henan Province there was a "howler sect" [hu han pai 0729 0815 3175], a religious organization, that called its leader "the Living Christ." They distributed a large amount of reactionary propaganda and loudly proclaimed they will rule all the world. Before they were suppressed in July of 1993, they had established over 100 activity centers and had several hundred core members.

New Characteristics of Present Feudal Superstitious Activities

The deceit was in the past carried out by the activity of single persons, but it has now developed into the action of organized groups. In "simultaneous operations" they recruit followers, continuously expand their contingents, and form a professional stratum. They also do not use only one type of tricks, such as fortune-telling, necromancy, geomancy, but are "experts in one thing and good at many." Their operations get more and more comprehensive and modernized. In some places, for instance, fortune-telling is done by means of a "computerized fortune-telling sutra." The pattern of their activities has also changed from the former sedentary, localized way to dashing around to commit their crimes hither and thither. The periods of activities have changed from the former preference for the slack farming season to regular activities in all four seasons of the year, and membership has changed from formerly being in the majority older people to now a combination of old, middle-aged, and young people.

According to the analysis of parties concerned, the resurgence of feudal superstitions in the 1990's started in the

economically developed southeastern coastal regions. The Central Committee of the Communist Youth League found out in an investigation at Lufeng County in Guangdong Province that various types of feudal superstitious activities were now being conducted completely openly on a very widespread scale, and that a surprisingly large number of people were working in the production and sale of articles used for feudal superstitious purposes. In Jieshizhen township a man called his factory "People's Bank of the Underworld," and had over 200 persons working especially to manufacture various kinds of articles for feudal superstitious purposes, which he widely marketed domestically and abroad. One item in the records of the Shanghai Public Security Bureau said, that over 2,000 people in Shanghai from in and around the three counties of Chongming, Chuansha, and Jiading are specially engaged in feudal superstitious activities. A news item broadcast in July of 1992 by the Central Broadcasting Stations said that it was considered fashionable by some people in Wenzhou City, Zhejiang Province, to build during their lifetime luxurious mausoleums for themselves, for which the maximum expenditure had been as much as several hundred thousand yuan.

Feudal superstition finds a market already among middle school students. An investigation by the Youth Center of the China Welfare Association revealed that 60 percent of the middle school students believe that man's life is determined by fate. They pray: May the light of Buddha shine everywhere, may a Bodhisattva make his power felt, and are boy scouts that kneel in prayer before Buddhist altars. One student, in the second class of higher middle school, had on his desk the following motto for his personal guidance: "Having not yet passed my examination, I still need a Bodhisattva's assistance." A very bright student in lower middle school in Anhua County, Hunan Province, was told by the fortune-teller that he was not destined for book studies. He thereupon secretly took 400 yuan from home and went to a place in the southeast, as directed by the fortune-teller, to engage in business. The result was that after eight days he begged to be allowed home again.

There are rather serious incidents of even some party members and cadres participating in, supporting, and organizing feudal superstitious activities. Somewhere in Yuzhou City, Henan Province, some party cadres participated in temple construction and collected money from the peasants to build an earth god temple, a temple to the goddess, etc., for each village at least one. A village party secretary in Fangcheng County did not call a doctor when his wife fell sick, but determined that she was possessed by an "evil spirit." To "suppress the evil spirit" he went to Wudangshan Mountain [in Hubei] and brought back a "spirit-venerating statue" and a "treasured sword," which he displayed in the main room of his house. On the first of every month he also went to the village temple to burn incense and pray to ward off the illness. Moreover, the RENMIN MINZHU BAO reported in November of 1993: In recent years, some personnel from a powerful organ of the National People's Congress also began to play the "mystery chain" game [shen bi lian 4377 4434 6969]. [passage omitted]

Japanese Academic Sees Tough PRC Policy on Taiwan

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[By Sofia Wu]

[Text] Taipei, March 22 (CNA)—Beijing could toughen its policy toward Taiwan if the People's Liberation Army (PLA) gains the upper hand in post-Deng Xiaoping power struggles, a Japanese scholar said here Tuesday [22 March].

Akio Takahara, an assistant professor at Omiin University in Tokyo, said during a seminar on Mainland Chinese affairs that maintaining an international climate favorable for the mainland's economic development and pursuing national unification are the two pillars of Beijing's foreign policy.

Takahara noted that Deng Xiaoping's personal reputation has been a major force preventing the nationalist PLA from interfering in Beijing's foreign policy.

However, with Deng aging and his influence declining, the call for hardline foreign policy has been mounting within the PLA, he said.

Takahara added that some 100 active-duty and retired mainland military officers wrote to Chinese Communist

Party (CCP) Secretary-General Jiang Zemin and paramount leader Deng last June, asking them not to yield to American pressure on diplomatic affairs.

Last August, Takahara said, a group of retired senior PLA officers and members of the CCP's Central Military Commission also issued a joint statement urging Beijing authorities to harden policy toward the United States.

In response to those calls, Beijing's Politburo, while reiterating a moderate line in dealing with the United States, declared a "four no's" policy—no confrontation, no provocation, no evasion and no fear—in handling diplomatic affairs last September.

Takahara observed that Deng has supported a moderate stance toward the United States partly because he feared that a rift between Beijing and Washington might push America closer to Taiwan.

Takahara said after Deng dies, the hardline faction in the PLA will very likely have a greater say in Beijing's decision-making. By then, he predicted that the "Taipei-Beijing-Washington" relations triangle may change greatly.

The mainland affairs seminar, which opened Monday, is being sponsored by National Chengchi University, with more than 100 Taiwan and Japanese scholars participating.

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